

MAR 19 1949

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# Accountancy

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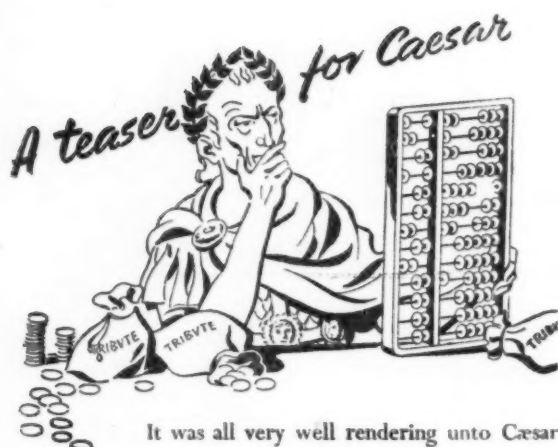
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MARCH 1949



ONE SHILLING



It was all very well rendering unto Caesar the things that were Caesar's, but it was no joke computing CCCXVI sacks each containing MDCCL sesterces, even with the aid of the Abacus. Proud Caesar, conqueror of all the world, quailed before simple arithmetic.

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## Professional Notes

### Supplementaries and Surpluses

No less than £221.5 million is the addition to the original estimated expenditure of the Civil Departments in 1948-49. The details of these supplementary estimates show that the original ones were based on some rather extraordinary budgeting. We accuse no one of extravagance and we take up no political cause when we complain that those responsible should have been able to arrive at closer estimates at the beginning of the financial year than are revealed by the following specimen figures:

	Original Estimate (£ million)	Revised Estimate (£ million)	Additional Sum Required (£ million)
Advances to Boards of Governors of Teaching Hospitals (b) ..	10.1	18.2	8.1
Grants to Local Health Authorities (a) .. .. .	3.7	9.7	6.0
Pharmaceutical Services (a) .. .. .	12.2	16.5	4.3
General Dental Services (b) .. .. .	8.0	20.6	12.6
Supplementary Ophthalmic Services (b) .. .. .	2.3	14.4	12.1
Hospital Liabilities transferred to the Central Government (b) ..	2.4	19.0	16.6
Official Car Service .. .. .	0.2	0.4	0.2
Management and Farming of Land .. .. .	0.0 (c)	1.2	1.2
Grants for Ploughing up Grassland (England, Wales and Northern Ireland) .. .. .	2.4	4.4	2.0
Ministry of Supply Trading Services (net) .. .. .	0.0 (c)	16.8	16.8
Ministry of Food Trading Services (net) .. .. .	302.1	352.4	50.3
Hire and Operation of Ships .. .. .	45.3	57.3	12.0

(a) England, Wales and Scotland. (b) England and Wales. (c) Under £50,000.

To those who are accustomed to budgeting in business it will appear that such wide discrepancies as the foregoing ought to be avoidable. In the case of the health services it is no excuse to point to the heavy popular demand, especially for dental and ophthalmic services, for that should surely have been foreseen.

Despite these supplementary requirements, however, it seems that the surplus at which the Chancellor aimed in his Budget will be just about achieved. For the revenue is also out of line with the estimates. In the event, the "above-line" surplus is likely to be more than £700 million, which will leave a net surplus of at least £300 million after taking account of "below-line" entries. That way of presenting the outcome keeps the old distinction between "above-line" and "below-line" items, though it is to be hoped that the Chancellor will this year carry through his intention of drastically revising the form of the Government accounts by finally bringing in revenue and capital accounts.

### "Contact Men"

The revelations at the Lynskey Tribunal—which inquired into "Allegations Reflecting on the Official Conduct of Ministers of the Crown and Other Public Servants"—about the behaviour of a new class of the business community, dubbed "contact men," have caused the Prime Minister to set up a Committee to inquire into their activities. The Chairman of the Committee is Sir Edwin Herbert. These "contact men" appear to provide the lubricant for the cumbrous rationing and licensing machine, and there are those who are prepared to pay a price to get the machine working, instead of suffering its continual breakdowns or its clumsy and slow "ticking-over." The Committee will investigate in what degree the functions of the "contact men" are legitimate. It should by no means be assumed that all their activities will necessarily be condemned by the findings of the Committee, though the possibilities of malpractices are obvious.

The terms of reference of the Committee specifically exclude any inquiry into work undertaken by members of the recognised professions. This is



clearly as it should be. An extraordinary passage in a leading article of a recent issue of *The Times* applied the term "contact men" so widely that it included accountants and other professional advisers who for long have represented their clients in certain proceedings and negotiations with Government Departments. Work of this kind is conducted by members of the professional bodies, sometimes with the sanction of an Act of Parliament, as when accountants or solicitors appear before the General Commissioners of Taxes, and invariably in accordance with long-standing and well-established procedure. Further, professional bodies have their own stringent disciplinary rules ensuring that any work of this kind is conducted properly. The specific exception of such professional activities from the terms of reference of the Committee is proof enough, if proof is needed, that *The Times* made an unfortunate lapse.

#### **Society's Headquarters— Temporary Removal**

We are pleased to announce that the repair of Incorporated Accountants' Hall, which was badly damaged by a flying bomb in July, 1944, has been licensed. While the restoration work is proceeding—it will take possibly eighteen months or two years—the headquarters of the Society of Incorporated Accountants will be at 12, Milford Lane, London, W.C.2. These temporary premises are situated immediately behind Incorporated Accountants' Hall, and Milford Lane runs parallel with Essex Street. The telephone numbers will still be Temple Bar 8822/4. The library will also be moved to the temporary address. The removal will start early in March and is expected to be completed by the middle of the month.

Postal communications should continue to be addressed to Incorporated Accountants' Hall.

#### **Colliery Compensation**

The global compensation of £164.7 million for nationalised collieries has now been allocated among the twenty-one coal-producing districts. The allocation was made by the Central Valuation Board set up under the nationalising Act. Eight District

Valuation Boards have now to allocate the compensation among the seven hundred or so colliery concerns. It is expected that the work of the District Valuation Boards may take up to two or three years to be completed. Each colliery concern has had to submit to the Ministry of Fuel and Power and the National Coal Board a "statement of interests" giving particulars of assets vested in the Board or which may vest in it under options still to be exercised. After examination by the Ministry, the "statement of interests" is put in the form of a schedule, a "compensation unit," copies of which go to the appropriate District Valuation Board. The "compensation unit" is used by the Board in making its valuation of a colliery concern. The concern can appeal against this valuation to a referee, whose decision is final. Each colliery concern in a district will then receive a proportion of the global compensation allocated to that district, the proportion being that which the valuation fixed by the District Valuation Board or the referee bears to the total of all such valuations in the district.

#### **Stock Exchange Commissions**

The difference of opinion between the banks and the Council of the Stock Exchange has now been resolved by the Council's decision not to bring in the proposed new rules. These rules, it will be remembered, would have prevented the rebating of commissions to agents. All classes of agents, including accountants and solicitors, benefit from the decision. It will be interesting to see whether this reversal of the Council's original attitude tends to increase the number of accountants and other agents in the professions claiming a rebate.

The reason given for the decision is the division of opinion among members of the Stock Exchange on the whole question of the sharing of commissions—a question on which we commented from time to time in these notes last year. It is understood that the majority on the Council itself in favour of rescinding the proposed new rules was small; there is little reason to suppose that, had the matter been put to a vote of the members of the Exchange, there would have been a majority for continuing rebates. In the end, however,

the Council took the view that it should shoulder the responsibility itself and should not rule by referendum. Its avowed intention is to clear the ground for a new approach to the problem—exactly what problem has not been made clear. There are two main points. Firstly, how can an increase be made in the net income of brokers, who are feeling severely the depressive result of the new 2 per cent. stamp duty, aggravated as it is by the diminution of inflationary pressure? Secondly, how can there be secured an indisputable professional status not only for London members but for the whole stock market community? On the second question, it seems probable that the London leadership must suffer a reverse as a result of its latest decision. That decision will also be very unpalatable in the Provinces, where most exchanges already ban commission sharing.

As to the rather more pressing matter of increasing the average income of Exchange members and their associates, it is not easy to see how much can be done. Free closing of bargains within the period of two accounts is to be restored, but it is doubtful whether that will do much to increase speculative business. Without speculative business the jobber's margin must remain relatively wide. The resultant decline in turnover is likely to reduce the number of broking and jobbing firms and to some extent to diminish the force of competition, at least after a period of consolidation. In these circumstances, the Council is almost certainly right in supposing that to raise charges would merely reduce still further the volume of business. The one step which would probably make a real contribution—the restoration of reasonably full carry-over facilities—is presumably ruled out by the Government's objection to all speculative profits; a crushing contract stamp charge could always be imposed if the authorities so decided, and would presumably be invoked if the Council should be bold enough to run counter to the Government's wishes.

#### **The Two Censuses—(1) Distribution**

The first full census of distribution has been postponed from 1950 to 1951. The returns which will have to be



furnished in 1951 will relate to the calendar year 1950, unless the Board of Trade agrees that it is more convenient for the return to relate to another period of twelve months. In practice, there will apparently be no question that a trader may use the returns of his financial year if he so wishes.

The postponement of the census will be generally welcomed by traders, and probably also by their accountants. Despite the determined efforts of the Board of Trade to simplify them, the census forms remain formidable documents, the completion of which will be a burden. Nevertheless, there is no doubt that in the long run the effort necessary to provide statistical information, so far almost completely lacking, on distribution, will be amply repaid. The postponement may have been justified on the grounds that the year 1949, to which it would have applied, could not be taken as a normal one. But despite the protestations of traders and many members of the accountancy profession, it appears to us that the postponement would hardly have been justified for more general reasons.

We understand that specimen copies of the census form for wholesale trades will be available later this year. Readers wishing to have advance copies should write to the Secretary of the Society of Incorporated Accountants.

### —(2) Production 1949

An Order prescribing the matters about which returns must be provided for the Census of Production 1949 came into operation on December 31, 1948. Undertakings producing coal, gas, electricity, oil shale, crude or refined petroleum or shale oil products are exempted by the Order from making returns to the extent to which they supply such information to the Minister of Fuel and Power under Section 1 of the Statistics of Trade Act, 1947.

The Order is known as The Census of Production (1949) (Returns and Exempted Persons) Order, 1948.

The coming Census, which will be taken early in 1949 in respect of 1948 production, will be the first full Census of Production since 1935. A partial Census, covering 15 industries, was taken last year.

### Insolvency Matters

The Council of the Society of Incorporated Accountants has considered the activities of accountants connected with trade protection societies and trade associations in relation to insolvency the holders of the shares whose transfer is involved; and, moreover, the number of the Society of any office or employment in a trade protection society or trade association does not of itself create the relationship of accountant and client as between that member and any member of the trade protection society or trade association.

The soliciting of business in insolvency matters by any member, whether or not he is connected with a trade protection society or trade association may, on a complaint being made, involve disciplinary action.

### Extension of the New Rent Control

It is surprising that steps were not taken in the past to put an end to the premium scandal. While landlords were precluded from charging their tenants premiums, except in cases where the tenancy granted was for a term of fourteen years or upwards, a tenant could always charge a premium on assigning his lease. Indeed, as the Landlord and Tenant (Rent Control) Bill was originally drafted, it would even have been open to a tenant, in the case of first lettings after the end of the war (now altered to September, 1939) to get the tribunal to reduce the standard rent, and then to proceed to dispose of his tenancy at a very substantial premium.

At long last, the ramp is to be stopped. Under the amendment introduced in the Committee stage of the Bill, a tenant is prohibited from charging a premium upon the assignment of a tenancy. There is a saving, however, for persons who have paid their own landlords premiums in the past, for leases for fourteen years or upwards. In such cases the tenant can pass on a proportionate part of the burden to an assignee or a sub-tenant. But once this transfer has taken place it would appear that no further transfer would be permissible.

Moreover, on an assignment, the assignor may pass on the burden of any outgoing, such as rates or Schedule A

tax, referable to any subsequent period.

The new clause, however, contains a provision in sub-clause (3) which requires drastic alteration. The wording of this provision appears to confuse two distinct things, viz. a controlled tenant and a controlled house. A house, if within the appropriate limits of rateable value, will always be controlled; but a tenancy of such a house may be an uncontrolled tenancy, as for example, if the rent was less than two-thirds of the rateable value. Sub-clause (3) reads as follows:

This Section applies to any tenancy of a dwelling-house such that when the dwelling-house is let under the tenancy it is a dwelling-house to which the principal Acts apply.

Bearing in mind that the dwelling-house is, whether let or unlet, and whatever the nature of the letting, "a dwelling-house to which the principal Acts apply," sub-clause (3) is entirely without meaning.

### UNESCO Accounts

We publish on page 79 of this issue a letter from the Deputy Comptroller of the United Nations Educational, Scientific and Cultural Organisation. The letter refers to a Professional Note in our issue of last December (page 269), which drew attention to the auditors' report on the accounts of the Organisation, and proceeded to criticise its Accounts Section. It was made clear in our original note that the auditors' report was dated July 4, 1947. Since this remarkable document had only recently reached us, and especially since it seemed to have escaped the attention of the national Press, we thought it in the public interest to comment upon it, despite its being a year and a half out of date. The letter from the Deputy Comptroller, and the later auditors' reports which he sent us, make it clear, however, that there has since been a great improvement in the accounting arrangements of the Organisation. We gladly acknowledge this improvement, for the purpose of our original note was to serve the aims of internationalism by attacking what we considered to be ill-service it was receiving from within UNESCO. The more general strictures upon the Organisation, con-

tained in the first part of our note, we see no reason to withdraw, but its last paragraph, in which we suggested that the present Accounts Section should be "purged," would not have been written if we had then possessed the further information we now have.

### "Points in Practice"

We announced in our January issue that we hoped to introduce one or more new features in ACCOUNTANCY during 1949. The first of these, *Points in Practice*, appears this month, on page 61. In this new feature we shall endeavour to deal with problems that are currently arising in practising accountants' offices. While the feature does not depend upon readers submitting such problems to us, we shall welcome the opportunity of trying to cope with any difficulties that readers may forward, whether or not they desire their letters to be for publication. This month *Points in Practice* is confined to questions on the Special Contribution, but from month to month the notes will range over the whole field of accounting, auditing and taxation. We hope that paper supplies will allow us to publish *Points in Practice* every month, but there may be odd months when lack of space will prevent its appearing.

### Commissions in the R.A.P.C.

The War Office announces that commissions may be obtained in the regular army by released officers and civilians.

To secure a regular or short service commission in the Royal Army Pay Corps a man must either have had previous commissioned service in the Corps or must have a degree in Commerce or Economics from a British University or must be a member of one of the following bodies:

- Institute of Chartered Accountants
- Society of Incorporated Accountants and Auditors
- Association of Certified and Corporate Accountants
- Institute of Cost and Works Accountants
- Chartered Institute of Secretaries
- Institute of Bankers

The age limits are 21 years to 28 years on January 1 last for regular commissions and 21 years to 35 years for short service commissions for civilians. There is an upper age limit of 45

years for released officers obtaining short service commissions.

The closing date for applications is July 31, 1949, and they must be submitted in duplicate on forms which can be obtained from the War Office, A.G. 1, London, S.W.1. Further particulars may also be obtained from that address.

### Research Prizes

In our issue of December last (page 284) we published particulars of the Prize Scheme of the Incorporated Accountants' Research Committee. The date by which those wishing to compete under the scheme are required to submit the topic of their proposed thesis has now been extended from March 31, 1949, to June 30, 1949. The date for submission of completed theses has been extended from December 31, 1949, to March 31, 1950. Under the scheme, a first prize of 100 guineas and a second prize of 50 guineas are offered for the best theses of not less than 20,000 words on a topic within the general scope of accountancy or allied subjects, including industrial and commercial administration, public administration, economics and statistics. The competition is open to all members of the Society of Incorporated Accountants.

### Assistance to Articled Clerks

We have pleasure in drawing the attention of our readers to a scheme of the Trustees of the Mitchell City of London Educational Foundation for the assistance of certain articled clerks. Particulars of this generous offer are contained in a letter from the Foundation to the Society of Incorporated Accountants. The letter reads as follows:

I have been instructed by the Trustees of the Mitchell City of London Educational Foundation to bring to your notice the assistance which the Foundation is able to give to students in articles who, for financial reasons, are having difficulty in completing their course of training.

An essential condition is that the candidate must have a "City Qualification," i.e.,:

- (1) that he, or either of his parents, must at some time have resided in, or been employed or in business in, the City of London, or
- (2) that he must have attended either a school within the City, or Christ's Hospital.

Any clerk articled to a City firm has, therefore, the "City Qualification."

Grants are available up to a maximum of £250, which may be spread over a period of years, to meet cases of hardship. The type of case which the Trustees have in mind is that in which a student has to consider giving up his articles and taking employment because his parents have become, for some reason, unable to give him further support for his maintenance in articles.

I should be grateful if you would take whatever steps you think appropriate to put in touch with the Foundation deserving cases which may come to your notice. Applications should be made to the Clerk.

### Land Values for Probate

The Town and Country Planning Act had an adverse effect on property values long before the Act was passed. As soon as it was known that the Government intended to introduce measures restricting property values to "existing use," buyers of land became cautious. When the Bill was published in 1946, property dealing became even more difficult and when, on August 6, 1947, the Act became law, it was almost as if the "appointed day" had arrived and development rights been expropriated. District valuers in agreeing valuations of real estate for probate were for some time reluctant to admit this anticipatory drop in market values. Although accepting the view that the basis on or after the appointed day should be the fair market value for existing use, they contended that the loss of development rights could not be felt until July 1, 1948. Now, however, it is announced that the Board of Inland Revenue agree that in the case of deaths occurring on or after August 6, 1947, and before July 1, 1948, it is necessary in estimating the principal value of property for estate duty purposes to consider whether the deceased's interest was affected by the Act. This is a valuable recognition by the Estate Duty Office of the early effect of the planning provisions on land values. It is difficult to say to what extent account will be taken of the restrictions imposed by the Act until they had legal force on July 1 last year. But the acceptance in principle that property values were depreciated will enable many negotiations with the Inland Revenue to proceed on a more favourable basis.



# ACCOUNTANCY

FORMERLY THE INCORPORATED ACCOUNTANTS' JOURNAL ESTABLISHED 1889

*The Annual Subscription to ACCOUNTANCY is 12s. 6d., which includes postage to all parts of the world. The price of a single copy is 1s. od., postage extra. All communications to be addressed to the Editor, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2.*

## *When is a Cook a "Chef de Cuisine (Male)" ?*

PROPOSALS HAVE BEEN PUBLISHED FOR minimum wages for workers in unlicensed hotels. The proposals are to be put to the Minister of Labour by the Unlicensed Residential Establishments Wages Board, which will consider written representations submitted before March 22, 1949. The Minister at a later date will probably bring in regulations on the lines of the Board's final proposals.

A long schedule gives minimum weekly wages for no less than 120 different classes of workers, cross-divided into seven groups according to areas and according to whether board and lodging are provided. There are thus to be 840 different minimum wages for this relatively small industry, the typical unit of which is the small private hotel employing very few workers.

The figures range from 22s. 6d. per week for a "chef de cuisine (male)" who receives no meals and works in "the City of London and Metropolitan Police District," down to 24s. 3d. per week for any undesignated female worker (except a manageress, transport worker or shop assistant) aged 15 but under 16, receiving full board and lodging on seven days a week and working in any area. A glossary informs us that a cook is only a "chef de cuisine (male)" if he is :

a male worker aged 21 years or over who is experienced in all departments of the kitchen, is in charge of the kitchen, and who supervises the work of not less than four "chefs de partie" or sectional cooks and plans menus, and orders supplies.

And a "chef de partie" is :

a chef saucier, a chef pâtissier, a chef garde-manger, a chef rôti-seur, a chef

poissonnier, a chef entremetier, a head breakfast cook or a head grill cook.

What then is a "chef saucier" ? He, we are told, is :

a male worker aged 21 years or over who is wholly or mainly employed in preparing, or in supervising the preparation of sauces, and the cooking and serving, or in supervising the cooking and serving, of entrées, and who is assisted by one or more commis sauciers whose duties he supervises.

while a "chef pâtissier," a "chef garde-manger," a "chef rôti-seur," a "chef poissonnier," a "chef entremetier" and the rest receive their own precise definition by cross-reference to the others.

If a cook is not a "chef de cuisine" by the regrettable circumstance that only a "chef saucier," a "chef pâtissier" and a "chef garde-manger" work under him and he cannot claim a fourth "chef de partie" because the person who would otherwise have been a "chef rôti-seur," while duly more than 21 years of age and wholly engaged in cooking or in supervising the cooking of joints, poultry or game, has unfortunately omitted to secure the services and to supervise the duties of a "commis cook" (a male worker who has undergone not less than three years' training under a chef de cuisine or a chef de partie and who is employed under the immediate supervision of a chef de partie, other than a chef saucier, chef pâtissier or a chef garde-manger), then the cook in question appears to be relegated to the degradingly inferior status of a mere "chef," and he will receive only 151s. instead of 22s. 6d. a week. But stay ! If he is not provided with free launder-

ing of his "protective clothing" or uniform (where "protective clothing" means "any garment other than uniform which protects a worker's normal clothing"), the position is not quite so bad, for he receives an addition of 2s. 6d. per week.

Further, he may, of course, find himself provided for under the paragraphs dealing with payment for night work, for spreadover of hours, for reduced intervals of rest, for overtime and for a number of other contingencies, with consequential additions to his emoluments.

Another set of proposals by the same Board set out complicated provisions for holidays with pay in the industry. However, the nicely drawn dividing lines between the various types of workers in unlicensed hotels, apparently considered so important to the proposals for minimum wages, are absent entirely from those for holidays with pay.

Mrs. Brown, who keeps the boarding-house at "Seaview," Marine Parade, employing two or three workers, will spend some anxious nights studying the minimum wage regulations, when they become law, in case she inadvertently under-pays her "chef." Like other proprietors of unlicensed hotels, she must "keep such records as are necessary to show whether or not the provisions of the Catering Wages Act, 1943, are being complied with," as respects her employees, "and must retain the records for two years or such longer period as may be prescribed." If she offends in any of these particulars, she is liable to a fine not exceeding £20 for each offence. At that price she may consider it cheaper to offend !

The British Hotels and Restaurants Association has protested against the proposals, which it says will affect many thousands of small businesses in which it will be a practical impossibility to ensure that regulations of this kind are properly understood and applied. The regulations, it states, will require elaborate records to be kept and complicated calculations to be made where staff is not available for the purpose. According to the Association, the charges for hotel accommodation will have to be increased to meet the new wages or the existing services will have to be curtailed.



# Production Control and the Accountant

By J. E. CAWLEY, A.C.A.

EVERY EFFICIENT MANUFACTURING BUSINESS, HOWEVER SMALL, must have a production control system. The purchase of materials, the engagement of labour, and the order in which the work is carried out, so as to make the most use of the resources available, need to be planned. Production must not be held up for the lack of one essential component, when at the same time all the storage accommodation may possibly be over-full with other components. Production control is in effect the co-ordination of the elements of production.

In small businesses this control can often be carried out by one man who has had so much experience that no clerical work is necessary. As the organisation grows, so do the complications. It becomes impossible for one man to carry in his head all the details; it is then necessary for more people to take part and for records to be kept. In those organisations where budgetary control is in operation, supported by standard costs, the Works Manager finds production control even more important, as he is put on his mettle to reach a specified level of production at or below a budgeted cost.

Let us take as an example a fairly large factory, manufacturing for stock, comprising foundry and machine shop, press shop, tool room and assembly shop. The factory produces a range of articles in which some common parts are found. All production will be based on information given in two documents:

- (1) *The Component List*, prepared by the Drawing Office, giving a list of the various components. On it will be shown description, size or weight, and reference number of the component, whether cast-iron and made in the foundry and machine shop or of mild steel and pressed out in the press shop or "bought-out" complete. The list will also give any necessary assembly instructions.
- (2) *The Operation Sheet* for each component, giving list of operations, including details of machine tool to be used, whether labour is to be male, female or juvenile, the rate for the job, preferably expressed in minutes per hundred items, and other technical information.

Both the above documents will have been used in working out the budget. Using this information, and after breaking down the budget requirements into short-term figures, the works planning department requisitions materials and tools and allocates the work. Time clocks are installed in each shop, and each operator clocks on and off each job on to the piecework tickets that have been issued to him. The works progress department keeps a check on the progress made against that planned by means of Gantt charts. Problems are continually arising, and periodically the Production Committee meets under the chairmanship of

the Works Manager to consider these, and to make necessary alterations to the organisation of the factory.

It may be asked at this point: "Where does the accountant come in to this very technical subject?" He normally lays no claim to any technical knowledge and may not be able to recognise a chuck from a jig, or a drilling machine from a miller. He has, however, other experience which can be of great value in production control.

In the first place, he is useful in an advisory capacity. The other main officials who attend the meetings of the Production Committee—the Chief Planner, Production Engineer, Rate-fixer, Progress Man, Plant Engineer and Buyer—all have executive duties. They are inclined to see some aspects larger than life, and be less interested in others. Even the Works Manager may be tempted to favour the manufacturing side at the expense of the buying of raw materials. The Company or Works Accountant brings to such a meeting an unbiased mind, as he has no executive duties. He can be trusted to look on all aspects impartially. In addition, as an Office Manager, he will have had considerable experience in systems, and will be accustomed to consider the effect of changes on all departments before allowing them to be carried out. His advice may therefore prevent changes being made rashly, without considering their effect on, say, the Wages Department, Cost Department or Drawing Office. He may also be able to make constructive suggestions on, for example, the following:

- (a) The system for the control of the ordering, manufacture, storage, issue and repairs of tools, jigs and patterns.
- (b) The control of stores and the necessary records, including the continuous stock audit, which will obviate the need for stocktaking and the consequent hold-up of production.
- (c) The system for the regular inspection and oiling of all plant and machinery which may avoid time lost on major repairs.
- (d) The use of a reference number for each component to be used by all departments of the offices and works.
- (e) The type and the ruling of stationery to be used for piecework tickets, daywork tickets, requisitions, scrap reports, departmental transfer notes and the like.
- (f) The best points for inspection, and where stores should be. Thus he may advocate a buffer stock between the foundry and machine shop, so that if the continuous moulding plant should break down it does not hold up all production.

Other members of the committee may, of course, make these suggestions but they lie more closely in the province of the accounting member.

Secondly, he can arrange for a considerable amount of the routine work to be done in his office. After the works planning department has decided on the programme for the week, the necessary piecework tickets, stores requisitions, etc., giving all the necessary information, can be produced in the office very quickly by the use of addressing machines, plates or stencils, or duplicating or reproducing machines. The office can also give totals of all the components re-

quired to meet a specified programme, by the use of punched-card machines and master cards. Where there are a large number of common parts the saving of time will be considerable. Where orders are received for spare parts the office can arrange to interpret them to the works in the works diction. In addition, the office will continually be keeping an analysis of outstanding orders for complete articles which will often be useful to the Production Committee.

Finally, by means of a standard cost system and punched-card machines, arrangements can be made to give the Works Manager valuable information on the efficiency of production. The following points may be thrown up in consequence :

- (a) Which operators are unable to make the grade.
- (b) The operations where production consistently lags behind the programme. In these cases, perhaps the programme is too optimistic, perhaps the rate-fixing requires adjustment.
- (c) The amount of labour, materials and overheads lost by defective work, relative to the total production, and the machines at fault. Perhaps the tool is defective.
- (d) The relative saving or loss due to using female or juvenile labour instead of adult male.
- (e) The relative saving or loss due to a change in methods, or using a different machine to that called for in the operation sheets, or using different materials.

- (f) The amount spent on the maintenance of the different machines and the amount of overheads not absorbed by their being out of action. It may be decided that a certain machine ought to be replaced.

There is hardly any end to the information of this type that can be given. The problem is to keep it within manageable proportions.

The most important thing to remember in production control is that no programme can be carried out in its entirety, however skilfully planned. Too many mishaps can occur to throw it out. Illness of operators, scarcity of certain raw materials, machine break-down, the discovery of improved methods, are merely instances. The system must be flexible. Improvisation on the spot will often be necessary, but it is essential that where this happens there are arrangements for notifying all concerned immediately, so that the minimum dislocation is caused.

This article deals with production control of one type of engineering factory, manufacturing for stock, but in most other industries also the accountant can play a very useful part in maintaining and increasing productive efficiency, even though the work is different from that usually associated with accounting.

## Companies Act, 1948—XVII

### DEBENTURES

*This article is the seventeenth in a series on the new company law. The first, a general article on the Companies Act, 1947, appeared in our issue of September, 1947, and subsequent articles have dealt with the following special aspects :*

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| II. Company Balance Sheet and Profit and Loss Account, etc. | VII. Auditors.                                    | XII. Receivers and Managers.        |
| III. The Exempt Private Company.                            | VIII. Articles of Association & Annual Returns.   | XIII. Transfer and Transmission.    |
| IV. Disclosure of Payments to Directors.                    | IX. Bookkeeping and Accounts.                     | XIV. The Winding-up of Companies.   |
| V. Meetings.  | X. Points to Note.                                | XV. The Protection of Minorities.   |
| VI. Prospectuses.   | XI. Accounts of Holding and Subsidiary Companies. | XVI. Board of Trade Investigations. |

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THE REFORMS WITH REGARD TO DEBENTURES IN THE NEW Companies Act are more unobtrusive and less well advertised than some of the other changes, but they have their importance. It will be convenient to deal with them under separate headings.

#### BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

Under Section 149 (2) and the Eighth Schedule to the 1948 Act (paragraph 12 (1) (b) and (d)) the amount of the interest on a company's debentures and other fixed loans must be shown in the profit and loss account, as well as the amount, if any, provided for redemption of loans.

In the balance sheet there must be disclosed (a) the nominal amount of any of the company's debentures which

are held by a nominee of or trustee for the company ; (b) the amount at which they are stated in the books of the company ; (c) particulars of any charge on the assets of the company to secure liabilities of any other person, including, where practicable, the amount secured (to be stated by way of note, or in a statement or report annexed, if not otherwise shown) (Eighth Schedule, paragraphs 10 and 11 (4)).

#### RECEIVERS FOR DEBENTURE HOLDERS

A receiver and manager, as the Cohen Committee pointed out, deals with the assets for all practical purposes as a liquidator until he has satisfied the claims of the debenture holders. The report further stated (paragraph



66) that the ability with which a receiver carries out his duties affects the interests of debenture holders, unsecured creditors and shareholders. This underlies the reforms under this heading.

A receiver or manager appointed on behalf of debenture holders under a debenture secured by a floating charge on the whole or substantially the whole of a company's property must forthwith send notice of his appointment to the company, which then has fourteen days from the date of that notice to submit its statement of affairs (Section 372 (1)), which must be in the prescribed form. The receiver or the Court may extend this period. Within two months after receipt of this statement the receiver must send to the Registrar of Companies a copy thereof, with any comments and a summary; he must send to the Court a copy of his statement, with his comments, or a notice that he has no comments to make; and to the trustee for debenture holders and all debenture holders whose addresses he knows he must send a copy of the summary.

Section 372 also provides that the receiver must, within two months or such longer period as the Court may allow after the expiry of twelve months from the date of his appointment and of every subsequent period of twelve months while he acts, and within two months or such longer period as the Court may allow after he ceases to act, send to the Registrar, the trustee for debenture holders, all debenture holders of whose addresses he is aware, and to the company, an abstract in the prescribed form showing receipts and payments during the period (Section 372 (2)).

Where a receiver is appointed by an instrument the Board of Trade exercises the above powers of the Court.

Where Section 372 (2) does not apply, a receiver or manager appointed under powers in an instrument must, within one month, or such longer period as is allowed by the Registrar of Companies, after the expiration of six months from the date of his appointment and of every subsequent six months, and within one month after he ceases to act as receiver or manager, deliver to the registrar an abstract in the prescribed form of his receipts and payments during the preceding relevant period and the aggregate amount of his receipts and payments during all preceding periods since his appointment.

The company's statement of affairs must show, as at the date of the receiver's appointment, the company's assets, liabilities and debts, the names, residences and occupations of its creditors, the securities held by them respectively, the respective dates when given, and any further information prescribed by statutory instrument (Section 373 (1)). It must be verified by affidavit.

There are penalties for defaults by receivers or managers, and they may be ordered by the Court to perform their duties.

#### TRUSTEES FOR DEBENTURE HOLDERS

Before 1947 it had been usual to insert in deeds appointing trustees for debenture holders clauses absolving the trustee from liability for anything but his own wilful neglect or default. On the basis of an analogous clause auditors were held to be exonerated in *City Equitable Fire Insurance Company* (1925) Ch. 407, unless they knew that what they were doing was wrong. The Act of 1928 cor-

rected this as regards auditors, and now the Companies Act, 1948, in Section 88, makes a similar provision with regard to trustees for debenture holders. Section 88 avoids *pro tanto* with certain exceptions any clause exempting a trustee from or indemnifying him against liability for breach of trust where he fails to show the degree of care and diligence required of him as trustee. The exceptions are: (1) any otherwise valid release in respect of anything validly given or done or omitted to be done by a trustee before the giving of the release; (2) any provision enabling such a release to be given (a) on a three-quarters' majority in value of the debenture holders and (b) either as regards specific acts or omissions or on the trustee dying or ceasing to act; (3) exemptions in force at the commencement of the Act so long as the then trustees continue to act. A three-quarters' majority in value of the debenture holders at a meeting summoned for the purpose under the deed, or where the deed does not so provide, in manner approved by the Court, may extend the benefit of exception (3) above to all trustees under the deed, so long as any trustee remains entitled to it. They may also extend it during that time to future trustees or to any named trustees or proposed trustees.

Under Section 207, in the information as to proposed compromises to be sent to creditors or members with notice of the meeting there must be disclosed material interests of trustees of debenture holders as such or as members or creditors of the company.

#### FLOATING CHARGES

Twelve months is now substituted for six months as the period before the commencement of a winding-up within which a floating charge is invalid unless the company was solvent immediately after it, except to the amount of cash paid at the time or later, with interest (Section 322 (1)). The old period of six months still applies to charges created more than six months before the commencement of the Act (July 1, 1948).

#### THE MEMORANDUM OF ASSOCIATION

Applications to the Court for an alteration of the objects clause to be cancelled (which now in the absence of such application may be made by special resolution without the sanction of the Court) may be made under Section 5 (2) by holders of not less than 15 per cent. of the company's debentures entitling holders so to object. The debentures must be secured by a floating charge and issued or first issued before December 1, 1947, or be part of the same series of any so issued. The special resolution altering the objects of the company must be notified to debenture holders as it is to members.

#### THE PROSPECTUS

Among the new statutory disclosures to be made in the prospectus is the number, description and amount of any shares or debentures for which any person has or is entitled to an option to subscribe, and the period for which the option is exercisable, the price to be paid for shares or debentures subscribed for or under it and the consideration for the option or the right to it. The names and addresses of the persons to whom it was given, or if given to existing



debenture holders (or shareholders) the relevant debentures (or shares) must also be disclosed (Fourth Schedule, Part I, paragraph 7).

Section 38, which requires the statutory disclosures to be made in the prospectus, does not apply where a prospectus or form of application is issued relating to shares or debentures which are uniform with shares or debentures previously issued and for the time being dealt in or quoted on a prescribed Stock Exchange (Section 38 (5) (b)).

A prescribed Stock Exchange can give to an applicant for permission for shares or debentures to be dealt with or quoted on it, a certificate of exemption that having regard to the proposals as stated in the request as to the size or other circumstances of the issue of shares or debentures and as to any limitations on the number and class of persons to whom the offer is to be made, compliance with the Fourth Schedule containing the statutory disclosures would be unduly burdensome. This certificate can only be given where it is proposed to offer shares or debentures by a prospectus issued generally and not to existing members or debenture holders (Section 39 (1)). The prospectus need then give only the information required to be published in connection with the application for permission (Section 39 (2)). Furthermore, Section 50, which holds up allotment of shares or debentures and proceedings on application until the third day after the day on which a prospectus is issued generally or such

later time as is mentioned in the prospectus, will not apply where such a certificate is granted.

#### CERTIFICATION OF TRANSFERS

The law with regard to certification of transfers as laid down in *Bishop v. Balkis Consolidated Company* 25 Q.B.D., 512, the value of which, as the Cohen Committee found (paragraph 139) was negated by *Whitechurch v. Cavanagh* (1902), A.C. 117, and *Kleinwort, Sons & Company v. Associated Automatic Machine Corporation, Ltd.* (1934), 50 T.L.R. 244, has been restored by Section 79, which applies to debentures as well as shares.

#### NOMINEE HOLDINGS

Applicants for an investigation by the Board of Trade into the membership of a company and the persons financially interested may ask for an investigation with regard to debentures as well as shares (Section 172).

#### EXEMPT PRIVATE COMPANIES

One of the conditions on which a private company is exempt from including a copy of the balance sheet and its accompanying documents in its annual return is that there are not more than fifty debenture holders.

Other conditions are that no body corporate is a debenture holder or shareholder and that only the debenture holders or shareholders have interests in their own holdings.

The conditions are subject to a long list of necessary exceptions set out in the Seventh Schedule.

## Points in Practice

*The first set of notes in this new feature, devoted to points arising in the professional practice of accountants (see page 56), deals with the Special Contribution. Experience of the Contribution in action—at this stage necessarily limited—confirms the general criticism that its incidence is arbitrary and its interpretation full of difficulties. The notes which follow have no claim to continuity; some may very well admit of varying opinions.*

### Periodical Payments

It is to be noted that the general rule, under which periodical payments are to be ignored—deleted from the income of the recipient and not allowed as a deduction from the income of the payer—does not apply when the payments are under a disposition which has been made for full consideration in money or money's worth (Section 52 (1) of the Finance Act, 1948). When an individual has acquired property of any kind, producing what for Special Contribution purposes is investment income in consideration of annual payments, it would seem that these annual payments may be deducted from both his total income and aggregate investment income. The recipient would include the annual payment in 1947/48 in his aggregate investment income. This position would appear to be at variance with the general principle that the Special Contribution is directed at investment income which has underlying

capital, either in the same ownership or one which may be reached by the recovery provisions.

### Beneficial Occupation

The use of the word "person," and not "individual," in Section 52 (2) of the Finance Act, 1948, indicates that an individual must include in his aggregate investment income the annual value of property owned by him but occupied beneficially by a company. This situation may exist when a company has been formed to take over a private business, and premises are retained by the vendor, who is charging no more than a nominal rent.

### Annual Value of Business Premises

The exclusion from investment income of income from property used in a business (Section 49 (2) (b) of the Act) was no doubt made on the principle that it was unreal to separate any rental aspect from the profits

of the business, and that the whole of those profits should be excluded from Special Contribution as earned income. The adjustment was, therefore, necessary to nullify the artificial separation for income tax under the 1918 Act. Having regard to the case of *Heastie v. Veitch & Co.* (18 T.C. 305, 1933), which confirmed the admissibility of a deduction for rent payable by a partnership to one of the partners, it would seem that income received by a partner in such circumstances should be included in his aggregate investment income for Special Contribution.

### Annual Value of Farm Property

It should be remembered that farming was not treated as a trade for income-tax purposes until 1941-42, and that the general rule was still subject to exceptions concerned with the annual value of the occupation (Sections 10 and 11, Finance Act, 1941). From 1949/50, all farming in the United Kingdom is to be treated as the carrying on of a trade (Section 31 (1) (a), Finance Act, 1948). It would appear to follow that the annual value of property owned and occupied for farming may be excluded from aggregate investment income where the assessment for 1947/48 was under Schedule D, but must be included when the assessment was under Schedule B. The fact that a computation is required for the purposes of claims under Rule 6 of Schedule B and

Section 34 of the 1918 Act still does not mean that the farm has been treated as a trade. In this connection the latter relief is due only because the Section specifically mentions losses incurred in the occupation of lands for husbandry. If this position is strictly maintained by the Special Commissioners it is clearly quixotic, and amending legislation should be introduced.

#### Deductions from Investment Income

Apart from periodical payments under Court order or voluntary disposition, the general rule for Contribution is that deductions admissible for sur-tax for 1947/48 may also be deducted from the gross investment income in arriving at the aggregate (that is, the net figure on which liability is computed). The proviso to Section 51 (4) precludes, by exception, "payments which are allowable as deductions in computing the profits or gains of a trade, profession or vocation." The *Explanatory Notes* (Pamphlet No. 600) issued by the Board of Inland Revenue give as an example bank overdraft interest paid on a business account, which has been added back in the computation, as a corollary to claim for repayment under Section 36, Income Tax Act, 1918. Such interest would be "allowable" as a deduction from business profits, although not in fact "allowed." It still seems strange; however, that the wording of Section 51 (4) of the 1948 Act does not take into account Rule 3 (1) of Cases I and II. There would seem nothing to prevent a deduction from investment income for ground rent payable on business premises, the annual value of which has been excluded from investment income by virtue of Section 49 (2) (b). Rents under long leases and patent royalties are other examples. In all these cases, deduction in the computation is prohibited merely because of the system of collection of tax by deduction at the source.

#### Allowances under Income Tax Act, 1945

Allowances which are due to taxpayers other than traders are to be granted by way of discharge or repayment of tax, available either only or primarily against income of a specified class. For instance, allowances under Part V which are due to a non-trader are available only against income from patents (Section 42 (2), Income Tax Act, 1945). On the other hand, allowances due to a lessor of industrial buildings; to an owner of agricultural property in respect of maintenance expenditure unrelieved under Rule 8, or in respect of capital expenditure; or to a lessor of plant within Section 20, Income Tax Act, 1945, are available primarily against income of those respective classes, with the right to set against any other income for the same year any unrelieved allowances for that year (Section 56, Income Tax Act, 1945).

For Special Contribution, the allowances made to a non-trader for 1947/48 may also be deducted from income of the appropriate class, but there is no corresponding deduction for any excess.

#### Patent Income

Income from patent rights may be treated as earned income in certain circumstances, by virtue of Section 40, Income Tax Act, 1945. This arises when the patent was granted for an invention actually devised by the individual receiving the income, either alone or jointly with another person. This is subject to restriction when any part of the rights has at any time belonged to any other person. It follows that income from patent rights may be excluded from investment income for Special Contribution in those cases in which earned income relief is now authorised. The sale of patent rights for a capital sum raises a difficult question. Although Section 37, Income Tax Act, 1945, specifically refers to the proceeds of sale as a capital sum, the charge to tax which is authorised under Case VI indicates that those proceeds are being treated as income for income tax, and, consequently, for sur-tax. Reading together Section 37, Section 40, and the definition of "income from patents" in Section 43 (1), leads to the conclusion that an assessment under Case VI on an individual for 1947/48, in respect of a capital sum, may be excluded as earned income, when the recipient, alone or jointly, devised the invention for which the patent was granted. In other cases, it would seem that a Case VI assessment for 1947/48 under Section 37 would be treated as investment income.

#### Relief for Working Directors—Computation

Where the number of working directors changed during 1947/48, the computation of the standard amount of remuneration, on the percentage basis, is to be made separately in respect of each part of the period during which the numbers were the same. The amount allowable for each working director will then be found by adding together the separate amounts for each part of the period. There is nothing, however, to prevent the application of the minimum, at the rate of £2,000 for a full year, to one or more of those separate parts. For instance, if there is an increase in numbers half way through 1947/48 it may be preferable to take 15 per cent. of the profits for the first half-year, divided by the number of working directors in that period, plus one-half of the minimum amount for the second half-year.

#### Relief for Working Directors—Groups

The Inland Revenue's *Explanatory Notes*, when dealing with the option to select one

of a number of connected companies and to treat that company as one for which the director has worked full time in 1947/48, states that none of that group must be investment companies. This may be examined in the light of an example, in which a group consists of a holding company (which is an investment company) and a trading subsidiary. An individual has worked full time for the trading company but receives income from share capital only from the holding company. There are minor duties as director of the latter. Is relief due under the Tenth Schedule? In the first place, paragraph 1 clearly indicates that the individual must be a working director of a private director-controlled company, other than an investment company. Secondly, paragraph 5 (2) refers to full-time working for a number of companies taken together, and the relationship of holding to subsidiary company is specifically mentioned. All the companies must be private, but there is no exclusion of investment companies. Thirdly, the director may select any one of the companies covered by paragraph 5 (2) and he may be treated as a working director of that one. Finally, let us revert to paragraph 1. Is the election still required to satisfy that paragraph, that is, that the company selected must not be an investment company? It appears that the Inland Revenue view is that the restriction applies, in which case there is no relief in the case outlined above. It seems at least arguable that the absence of a reference in paragraph 5 (2) to investment companies should lead to a contrary view.

#### Relief for Working Directors—Husband and Wife

It may be asked whether relief under the Tenth Schedule may be claimed separately by a husband and wife, where both satisfy the requirements of full-time working in the management of a company's business, and both have income from its share capital. At least it seems clear that they may both satisfy the conditions laid down in paragraph 1. It is in relation to the income from share capital, under paragraph 2, that doubt arises. Since the income of a married woman living with her husband is deemed, for income-tax purposes, to be his, can a married woman be regarded as having any income from the company's share capital which is available for relief? One is inclined to take the negative view. Reference may be made to Section 58 (7) of the 1948 Act: it was there found necessary to make special provisions for defining investment income of a married woman living with her husband. As a corollary to this view, the income from share capital against which a married man may claim relief would extend to that received



by both parties. It is to be hoped that the Inland Revenue will not be too pedantic on this issue.

### Spreading Taxed Income

During the passage of the last Finance Bill through Parliament, relief was refused in the case of unusually high dividends received in 1947/48 from companies affected by nationalisation—notably the railway companies. It has apparently since been noted that the dividends declared in 1947/48 by the four main-line companies and the L.P.T.B. do not relate only to 1947 but to the "final period" extending over the calendar years 1946 and 1947. The wording of Section 61 is, therefore, appropriate, and relief is, after all, due. This will relieve many cases of particular hardship. It should be remembered that, in the first instance, a comparison is required between the actual income received in 1947/48 and the income attributable to that year on a basis of accrual from day to day, according to Section 36, Finance Act, 1927. If it is established that the actual income exceeds the latter amount, then the Special Commissioners are to give relief, but they are not bound to the accrual basis, and may make such reduction as may be appropriate to secure that a full year's income is included for the purpose of the Special Contribution. It is clear that dividends paid by many public companies may attract claims under Section 61. Such companies include Baldwins (Holdings); Courtaulds, Ltd.; Foister, Clay & Ward, Ltd.; Hecht, Levis & Kahn, Ltd.; A. & S. Henry & Co., Ltd.; Hudsons Bay Co.; Inter-Union Finance; New Zealand & Australian Land Co., Ltd.; Frederick Sage & Co., Ltd.; Scottish American Mortgage Co., Ltd.; Scottish Power Co., Ltd.; Richard Thomas & Baldwins, Ltd.; Whiteaway, Laidlaw & Co., Ltd.; Electrical Supply Corporation, Ltd.; Electrical Distribution of Yorks, Ltd.; and Kwahu Mining Co. (1925), Ltd.

### Waivers of Small Interest Receipts?

It is hoped that the Inland Revenue will give serious consideration to the waiver of interest amounting to less than a few pounds. It is becoming increasingly clear that considerable delays will arise in settlement of ordinary cases, and application for any of the special reliefs, notably the spreading of dividends and Tenth Schedule relief, will accentuate this. On administrative grounds alone it is suggested that such a practice would be fully justifiable.

The Chancellor's reply to a question in Parliament on January 18 last was not, however, helpful. It has been announced that the gross equivalent of interest paid on overdue Special Contribution will be allowed as a deduction from total income for sur-tax.

## Tax Avoidance through Companies

THE FORMATION OF COMPANIES HAS IN the past proved to a certain extent a successful means of tax avoidance. And by the latest decision of the House of Lords in the *Howard de Walden* case, this means of tax avoidance, in one of its manifestations, is reinforced. (*Lord Howard de Walden (Scott-Ellis) v. C.I.R.*; House of Lords, October 29, 1948, T.R. 321.) The case was noted in our January issue (page 16).

For a proper understanding of decisions such as these, it is necessary to study the historical background. There must be traced step by step the schemes adopted by the taxpayer for the purpose of tax avoidance and the counter-measures taken by the Revenue from time to time to nullify these schemes.

Companies were not liable to sur-tax. So one of the early devices adopted was to transfer property to a company, and to omit to declare dividends.

In 1922, Section 21 of the Finance Act was passed to counter this device. It provided that where a company, of the kind to which the Section applied, failed to distribute among its members a reasonable part of its actual income from all sources, the income in question should be apportioned among the members and be deemed to be part of their income for sur-tax purposes.

Only certain classes of companies were affected by these provisions. It was necessary that the company should be a United Kingdom company, that it should be under the control of not more than five persons, and that it should be neither a subsidiary company nor a company in which the public were substantially interested (sub-Section (6) of Section 21 of the Finance Act, 1922, as substituted by Section 31 (3) of the Finance Act, 1927).

For the purpose of determining whether or not a company is "under the control of not more than five persons" certain important general amendments were made by Section 19 of the Finance Act, 1936.

Under that Section a company would be treated as being under the control of

not more than five persons" where, *inter alia*:

- (a) any five or fewer persons together exercise, or are able to exercise, or are entitled to acquire, control, whether direct or indirect over the company's affairs;
- (b) any five or fewer persons together possess, or are entitled to acquire, the greater part of the share capital or voting power of the company;
- (c) any five or fewer persons together possess or are entitled to acquire either the greater part of the issued share capital of the company, or such part of that capital as would, if the whole of the income of the company were, in fact, distributed to the members, entitle them to receive the greater part of the amount so distributed;
- (d) more than one-half of the income of the company (including any income which has been, or could be, apportioned to it (under Section 21 of the Finance Act, 1922)), could be apportioned among not more than five persons (under Section 21 of the Finance Act, 1922).

Furthermore, in determining the number of persons, persons who are relatives of one another, persons who are nominees of any other persons together with that other person, persons in partnership and persons interested in any shares or obligations of the company which are subject to any trust or are part of the estate of a deceased person, are respectively to be treated as a single person (Section 19 (2) of the Finance Act, 1936).

This sub-Section also purported to define a "relative" and a "nominee" for the above purposes.

Reference may also be made to Section 14 (1) of the Finance Act, 1937, as to the circumstances in which a company "under the control of not more than five persons" was not to be deemed to be a "subsidiary" company.

Regard should also be had to Section 19 (3) of the Finance Act, 1936, for the extended meaning of "company," whereby it was to include any body incorporated in any part of the United Kingdom under any enactment.



But let us now return to a consideration of the means adopted for circumventing Section 21 of the Finance Act, 1922. That Section, as has been pointed out, provided for an apportionment of the undistributed income among the members of the company. If, therefore, a company was made a member of the company whose income was not distributed, the taxpayer's object could still be achieved, since the income of the first company would be apportioned to, and treated as, the income of the second company, and there the matter would stop. Sur-tax liability would still be avoided, since a company was not liable for sur-tax. An individual might accordingly form two one-man companies, company A and company B, each of which was under his control. He would then transfer his assets to company A, which company was controlled by company B, which would be the principal shareholder in company A. Company A would not declare any dividends, and its undistributed income would be treated as the income of company B under Section 21 of the Finance Act, 1922. But company B would not declare any dividends either and there the matter would come to a full stop.

To remedy this, Section 32 of the Finance Act, 1927, was enacted. The Section provided for sub-apportionment, or a series of sub-apportionments, in cases where the income was apportioned to a company under Section 21 of the Finance Act, 1922. Even if there were a string of companies interposed, the income would ultimately be apportioned to the taxpayer, who accordingly could not avoid liability for sur-tax.

Thus, if the taxpayer transferred his assets to company A, and company B was the principal shareholder in company A, company C in company B, company D in company C, and so on, and company A did not distribute its income, then there would be an original apportionment from A to B, and a series of sub-apportionments from B to C, from C to D, and ultimately from D to the taxpayer.

But in order that this machinery should work successfully, it was necessary according to the then state of the law, that each of the companies in the chain should be a company of the kind to which Section 21 of the Finance Act,

1922, applied. Once the apportionment or sub-apportionment reached a company which was not a "Section 21 company" the machinery would come to a full stop once again.

The taxpayer might accordingly take advantage of this loophole by interposing a foreign company in the chain, with the result that once the apportionment or sub-apportionment reached the foreign company, no further sub-apportionment was possible, and the taxpayer once again avoided liability. The answer to this was the enactment of Section 41 (g) (a) (ii) of the Finance Act, 1938. The transfer would ordinarily constitute a "settlement," so that the restrictive provisions of *inter alia* Sections 38-40 of the Finance Act, 1938, would be brought into operation. The result would be that the income arising under the settlement would be treated as the notional income of the transferor for sur-tax purposes.

Now Section 41 (g) (a) (ii) of the Finance Act, 1938, defined "income arising under a settlement" as including where the amount of the income of any body corporate has been apportioned under Section 21 of the Finance Act, 1922, for any year or period, or could have been so apportioned if the body corporate were incorporated in any part of the United Kingdom so much of the income of the body corporate for that year or period as is equal to the amount which has been, or could have been, so apportioned to the trustees of or beneficiary under the settlement.

While this provision was closing the door even where a foreign company was interposed, it was still leaving it open as far as sub-apportionments in relation to foreign companies were concerned.

The Section was referring merely to an original apportionment. It could only meet the case where the taxpayer transferred his property to a foreign company and where such foreign company did not distribute its income back to the taxpayer. In that event a notional original apportionment of the foreign company's income could be made to the taxpayer direct. No other case, however, was covered.

The Revenue next sought to put the matter aright by enacting Section 13 (3) of the Finance Act, 1939, so as *inter alia* to extend the operation of Section 41 (g) (a) (ii) of the Finance Act, 1938,

to sub-apportionments in relation to foreign companies. According to the amendment made, Section 41 (g) (a) (ii) of the Finance Act, 1938, reads:

Income arising under a settlement includes where the amount of the income of any body corporate could have been apportioned under Section 21 of the Finance Act, 1922, *by means of an original apportionment or by means of an original apportionment together with one or more sub-apportionments or series of sub-apportionments*, if the body corporate were incorporated in any part of the United Kingdom, so much of the income of the body corporate, as is equal to the amount which could have been so apportioned *by means of an original apportionment, or by means of an original apportionment together with one or more sub-apportionments or series of sub-apportionments*, to the trustees of or a beneficiary under the settlements.

But even these amendments have not quite closed the loophole, as the *Howard de Walden* case indicates.

There are two different classes of cases to be considered. There is, firstly, the case where the foreign company forms the first link in the chain of companies; and secondly, the case where a foreign company is found in one or more of the subsequent links.

In the former case, there may be a first original apportionment from the foreign company to another company and thereafter there may be any number of sub-apportionments till the taxpayer is reached, subject to this important qualification, that *all* the other companies to, or from, which sub-apportionment is to proceed, must be companies within Section 21 of the Finance Act, 1922, and, therefore, *not* foreign companies.

In the second case, a loophole is still provided to the taxpayer, for the process of sub-apportionment cannot be carried on once it reaches a foreign company. It will stop there and will not reach the taxpayer.

The principle, it seems, may be summed up thus: While there may be an original apportionment from a foreign company's income, which then may be further sub-apportioned, (subject to the qualification stated below,) there cannot be an effective apportionment or sub-apportionment to a foreign company, so that the interposition of a foreign company in any subsequent link of the chain (other than the first) breaks the process of sub-apportionment.

# Taxation of Authors

IN RECENT WEEKS *The Times* HAS PUBLISHED A NUMBER OF contributions, in the form of letters, from distinguished writers, beginning with Mr. Bernard Shaw, complaining about the inequity of taxing authors on the whole of the receipts from their labours. As Mr. Shaw put it :

Why should we suffer what is virtually a tax on our capital which other gamblers (he instances, *inter alia*, the turf, Stock Exchange, "casino exploiters," etc.) incur only in the form of estate duties against which they can afford to insure? Why is property in our creations communised after less than two lifetimes and that of simple distributions made perpetual? Why is property in turnips made eternal and absolute when property in ideas is temporary and conditional?

Mr. Shaw is apparently not versed in the figures of insurance against estate duty; in large estates it is impracticable.

Several writers point out that an author who writes one successful book or play may make a fortune in one year and lose the bulk of it in taxation; before and after he may be in dire poverty. The deterrent on selling foreign rights for much-needed dollars is emphasised by Mr. Charles Morgan, who suggests that certain earnings by authors are so "exceptional" and "non-recurrent" as to be "so evidently the reward not of one year or three years but of a lifetime that at least part of these should be untaxed." Mr. A. A. Milne takes a somewhat satirical note, the gem of which (referring to Mr. Morgan's suggestion) is :

I should be annoyed (pardonably, I think) if my next book were received with the frenzied acclamations which one naturally expects for it, and my Inspector of Taxes, whom I do not like anyhow, said scornfully, "Bah! A pure fluke! He'll never do it again!" And what would happen if I did do it again?

What is the position of an author? An author who writes regularly is carrying on a profession assessable under Schedule D, Case II, and sales of copyright are receipts of his vocation, but it is probable that an isolated book is properly assessable under Case VI, with danger to the earned income allowance, though an isolated transaction may be capital. Expenses chargeable will be typewriting, secretarial fees, press agents' fees, books, stationery, postages, publicity, travelling and entertainment on business account, e.g., to get local "colour," in addition to the fair proportion of annual value or rent, rates, light, heat, etc., for the room or rooms used for the purposes of writing.

Copyright royalties are always assessable, as are the receipts under a profit-sharing arrangement with a publisher. Tax is deducted at source only where the sales are abroad (Section 25 of the Finance Act, 1927).

An important case was decided in the House of Lords on February 27, 1948, that of *Withers v. Nethersole* (1948, 1 A.E.R. 400) (reported in ACCOUNTANCY for July, 1948, page 164). Miss N. had obtained from the late Mr. Rudyard Kipling the exclusive right to dramatise a novel, to produce the play, and to dispose of her rights in respect of it. In 1914, she agreed with Mr. Kipling that he should

arrange for the disposal of the film rights, and she should receive one-third of the consideration. In 1916 the film rights were granted and she received her one-third. In 1923, these rights expired, and Mr. Kipling's personal representative granted them to another company for ten years for £8,000, of which she received one-third. It was held that her receipt of one-third of £8,000 was a capital one. Miss N. had given up the profession of a writer some years before, and the Crown claimed under Case VI. The following extracts from the judgments are important :

Here we have the sale and transfer outright of an item of property which previously belonged to the respondent, not the licence to use it granted by its unchanged owner, and this does not give rise to annual profits or gains unless the sale takes place in the course of carrying on a trade or profession (Viscount Simon).

I should hold that in the case of copyright it is possible to assign for a limited period of time and in so doing to part with the property itself. The owner in such a case is not granting a royalty but selling part of the capital asset (Lord Pater).

Had the sums been received while Miss N. was carrying on the profession of writing, the decision would apparently have been different. The case would not help Mr. Shaw unless he stopped his profession. An important relief was provided by Section 24 of the Finance Act, 1944. The author of a literary, dramatic, musical or artistic work who assigns the copyright therein wholly or partially, or grants any interest in the copyright by licence, in consideration of a lump sum payment which would have to be included as a receipt of one year of assessment, is given the following rights. If he can show that he was engaged on the making of the work for a period exceeding twelve months, he may give notice to the Revenue requiring the payment to be spread as follows :

- (1) If he was engaged on the making of the work for more than twelve but not more than twenty-four months, over the year of receipt and the preceding year ;
- (2) If the period exceeded two years, over the year of receipt and the preceding two years.

The provision applies also to any advances on account of royalties which are not returnable to the publisher.

The Secretary-General of the Society of Authors, in the correspondence referred to above, suggests that Section 24 should be extended to include lump-sum payments representing accrued royalties.

If a lump sum is paid provisionally against future royalties, the actual royalties paid against the advance form the income of the year in which they are earned, as the advance is returnable to the publisher if not earned.

Finally, we may add that, much as we sympathise with authors, of whom the writer in a humble way is one, we cannot but state that the fault lies in the general state of taxation. Were taxation at reasonable levels there would be less hardship all round. Every professional man suffers ; if he has an exceptionally good year, the State sees that he



is left with little more than usual. In other years, he must exist on his earnings. Low rewards, as a general rule, are all that a professional man can expect. A few get out of the rut, and do better at great cost in taxation.

We choose our profession and must abide by the results

or get out and seek something else. While acknowledging that it is a rare gift, we feel that "bread and butter" writing must be the standby; the best seller will help to improve the bread and butter, even if there is little left wherewithal to buy jam.

## Expenses

IT IS EVIDENT FROM CERTAIN ARTICLES THAT HAVE APPEARED as a result of the issue by the Revenue of Forms Nos. 275 and 276 regarding expense allowances, benefits in kind, etc., under the Finance Act, 1948, that there is a good deal of misconception on the matters involved, just as there is some apprehension among those who have been in receipt of excessive allowances.

On all this the reader is referred to two articles which appeared in our issue of September 1948, pp. 203-5. It may also be useful to set out explicitly a number of points.

(1) The Act applies to all directors.

(2) It also applies to all employees whose remuneration plus expenses payments and benefits in kind are at a rate of £2,000 a year or more, whether the employer is a company, partnership or individual.

(3) Directors and employees of charities; members or employees of local authorities; and employees of a school or other educational establishment are exempted.

(4) No deductions under P.A.Y.E. are to be made in respect of expenses, etc., for 1948/49; any necessary adjustments will be made by assessment in due course.

(5) Payments for expenses include not only round sum allowances, but also reimbursement of expenditure met by the director or employee and any sum put at his disposal and paid away by him.

(6) Benefits in kind include the provision for the director or employee of living or other accommodation, entertainment, domestic or other services, or other benefits or facilities of whatsoever nature. Anything provided for the spouse, family, servants, dependants or guests of a director or employee is to be treated as a benefit provided for him.

(7) The following benefits in kind are exempted:

(a) Accommodation, supplies or services provided for the director or employee himself on the employer's business premises and used by him solely in performing the duties of his office or employment (for example, ordinary office accommodation, supplies and services such as typists, messengers, notepaper), but not living accommodation, except—

(b) Living accommodation for an employee on the employer's business premises, if the employee is required to live there so that he may carry out his duties properly, and either—

(i) it has been common practice for at least twenty years before July 30, 1948, in that class of trade for that class of employee to have such accommodation provided; or

(ii) it is necessary, in that class of trade, for employees of his class to live on such premises.

Exemption (b) does not apply to a director of the concern or of any mutually controlled company.

(c) Meals in a canteen in which meals are provided for the staff generally. This includes meals in a particular outside restaurant where meals are provided for the staff generally.

(d) Expense incurred in the provision of any pension, etc.

(8) Subject to the above exemptions, all expenses and benefits in kind are assessable on the director or employee, subject to his right to a deduction under Rule 9 of Schedule E for expenses incurred wholly, exclusively and necessarily in performing the duties.

(9) Employers will in due course be required to furnish returns of expenses paid and benefits in kind.

(10) For 1949/50 onwards, it is proposed, so far as possible, to take income represented by expenses payments and benefits in kind into account in fixing code numbers under P.A.Y.E. The tax office will be in touch with employers in due course for this purpose.

(11) Except where a specific direction is received, tax will not have to be deducted from expenses which are mere reimbursements of expenses actually incurred or from payments made on a scale calculated to do no more than reimburse the actual outlay, e.g., scale subsistence allowances. The question of liability on these will be reviewed each year when the assessment is made.

(12) Tax will have to be deducted under P.A.Y.E. for 1949/50 onwards from round sum expenses allowances unless authority not to deduct is received (see 13 below). A "round sum allowance" is any payment (other than a specific reimbursement such as is mentioned in (11) above), e.g., a fixed annual sum or any amount placed at the disposal of a director or employee for which he does not have to account to the employer.

(13) The Revenue are anxious to avoid as much trouble on both sides as possible, and to issue authority in all genuine cases not to deduct tax.

(14) Immediate action should be taken to furnish to the Inspector of Taxes:

(a) A list showing the name of each director or employee who is in receipt of round sum allowances, the amount involved, and the purposes for which it is paid.

(b) The name of any director or other person for whom a benefit in kind, of any nature not exempted, is provided, indicating the nature of the benefit, how it is provided, and its value.

A supplement to the Employers' Guide is to be issued in March to give instructions as to completion of the 1948/49 Tax Deduction Cards and how to apply P.A.Y.E. for 1949/50.



# French Taxation

By J. H. JOHNSTON, F.S.A.A.

WE IN FRANCE COULD SCARCELY BELIEVE OUR EYES WHEN we read in the *Journal Officiel* of the French Republic of January 1, 1949, that the Government had suppressed our old enemies, the taxes upon:

- Industrial and commercial profits
- Agricultural profits
- Salaries, pensions and annuities
- Non-commercial profits
- Property built-up
- Property not built-up
- Income (general)
- Income on investments
- Turnover (special tax)
- Mortmain property and fixed mining royalties
- Market gardening production

Surely, for a first January good resolution, the French Government had surpassed itself!

We decided to celebrate. These old taxes had given us many uneasy moments, not so much in checking the calculation of the amounts payable. That was bad enough in all conscience. But raising the money to pay them and to avoid the penalties was worse.

The assessment notices used to arrive in the autumn, and for that reason were called *Les feuilles d'Automne*. They consisted of dirty-white pieces of paper divided into columns which, after reading, you laid aside knowing you still had a few months in which to pay. You hastened to forget all about them and spent any spare money you had on something else, until one day you were brought up with a jerk by a small slip of paper inserted in your letter-box on which was written *Somation sans frais*, and then if you did not do something you were in for a bad time indeed. Latterly the Government did not wait to send you the *Autumn leaf* but demanded payments, based on the previous year's tax, early in the year, with the threat that if you did not pay in the allotted time, you would be liable to a fine of ten per cent. Generally two advance payments were demanded, the first on February 1 and the second on May 1.

So now all these old annoyances were things of the past, for the taxes were abolished! This signal fact called for a little refreshment, and we reached for our hats. But wait a little! What does the next paragraph say? We read it. We leave our hats alone. For after suppressing the direct taxes set out above, the Government publication states:

There is established:

A tax on the revenues of individuals (*personnes physiques*)

A tax on the revenues of companies or other corporate bodies (*personnes morales*)

and in order that there may be no false ideas left to us on the question of freedom from taxation we are further told:

The tax on the revenues of individuals comprises:

- I. A proportionate tax on industrial and commercial profits, on agricultural profits, on salaries, pensions and annuities, on non-commercial profits and such like, and on revenues arising from property;

- II. A progressive sur-tax on the net total income of the taxpayer.

So our old enemies that were bundled out by the door have come in by the window. They now go by new high-sounding titles. They are known as the "tax on the revenues of physical persons" and the "tax on the revenues of moral persons."

To remove all doubt it is further stated:

The tax on the revenues of physical persons is due by individuals who would have been liable to assessment in respect of one of the revenues set out in the first paragraph hereof.

So that we may not be denied the joys of calculation we are told that the tax is due each year on the profits or revenues realised by the tax-payer or of which he has the disposition during the course of the year. Such profits or revenues are said to comprise the excess of the gross profits, including the value of profits or advantages in kind, over the expenses incurred on the acquisition or conservation of same. Individuals domiciled in France are assessed at the address of their principal residence. Individuals domiciled outside France, if liable to tax, are assessed: (a) in the case of French civil servants, at the offices of the service which employs them, and (b) in other cases at the address of their principal interests in France.

In order not to endanger their reputation for simplicity and clearness, the Government draftsmen then involve us in long excogitation, as we endeavour to grasp the meaning of the new regulations and to compare them with the old. Finally we throw the paper aside with the reflection: *Plus ça change, plus c'est la même chose.* We have noted, however, an attempt at uniformity of rates. The proportionate tax rate is now 18 per cent. (except for the profits of *personnes morales*, which are subject to 24 per cent.), whereas before these taxes became "taxes on the revenues of physical persons," we had to cope with all sorts of rates; 16 per cent. on salaries, 21 per cent. on agricultural profits and non-commercial profits, 30 per cent. on investment income.

As regards salaries tax, the legislature, not having discovered a method of painless extraction of tax from the employee, has decreed that the tax be settled by the employer for the present in addition to the salary, which must be paid to the employee in full. The employer pays tax of 5 per cent. on all salaries paid by him.

The "progressive sur-tax" is our old friend the general income tax, back with a new uniform. Having ascertained the taxable amount, you throw out Frs. 120,000. Then:

from Frs. 120,000 to 200,000 you pay 10 per cent.

"	"	200,000	"	300,000	"	15	"
"	"	300,000	"	500,000	"	20	"
"	"	500,000	"	800,000	"	25	"
"	"	800,000	"	1,200,000	"	30	"
"	"	1,200,000	"	2,000,000	"	40	"
"	"	2,000,000	"	3,000,000	"	50	"
over	"	3,000,000	"		"	60	"

The last two percentages are raised to 55 per cent. and 70 per cent. in the case of unmarried taxpayers or taxpayers divorced without children dependent upon them.

All things considered the uniform rate of 18 per cent. marks an improvement, and after a glance at the clock we reach for our hats again. The *café* on the *boulevard* is pretty full and we have to elbow our way to the counter. Finally we are comfortably settled on a stool and have forgotten all about taxes and percentages. There is a shuffling around us and a big man works his way to the front. We are interested because he seems to be the strong man of France.

## “Year of Assessment”

IN “ACCOUNTANCY” FOR JULY, 1948, we discussed the meaning of “income arising” for the purposes of Cases III, IV and V of Schedule D. The decision of the Court of Appeal in the case of *Atkinson v. Goodlass, Wall and Lead Industries, Ltd.* (1948) T.R. 347, makes it appropriate to carry the discussion a little further.

In that case the company owned the whole of the issued capital of an Argentine company, having acquired the shares over a series of years ending with the year 1936. No dividend was declared in those years until 1942-43. The English company owned shares in other foreign companies, from some of which it had received dividends prior to 1942-43. On these dividends assessments were raised under Case V.

On the Inspector of Taxes becoming aware of the dividend from the Argentine company he made an additional assessment (under Section 125, Income Tax Act, 1918), to cover the sterling equivalent of that dividend, on the grounds that the income first arose in 1942-43 and was therefore assessable under Section 29 (1) (b) (i) of the Finance Act, 1926, since the company had acquired a new source “in any year of assessment,” viz., the year in which the shares were first acquired, and the opening words of Section 30 (ii) of the Finance Act, 1926, were satisfied.

The company contended that the phrase “in any year of assessment” meant the year of assessment under consideration, and the new source had not been acquired in that year.

The Special Commissioners and Mr. Justice Singleton (as he then was) agreed with the taxpayer, but the

Court of Appeal reversed their decisions, thus maintaining Revenue practice. In his judgment Lord Justice Cohen reviewed the history of Case V and the Acts now governing it, and Lord Justice Tucker suggested that Section 30 might be rewritten so as to give effect to Section 31 as regards proviso (i), and proviso (b) (i) to Section 29 (1) as regards proviso (ii), as follows:

All profits or income in respect of which any person is chargeable under Rule 1 of Case III or under Case IV or Case V of Schedule D may respectively be assessed or charged in one sum: provided that—(i) If in any year of assessment any person charged or chargeable in respect of any such profits or income as aforesaid ceases to possess any particular source of any such profits or income or any part of any such source, income tax in respect of the profits or income from that source or that part shall be computed separately and the person charged or chargeable with tax in respect thereof shall be charged for that year on the amount of the profits or gains of the period beginning on April 6 in that year, and ending on the date of discontinuance; (ii) If in any year of assessment any person acquires a new source of any such profits or income or an addition to any source of any such profits or income, income tax in respect of the profits or income from that source shall be computed separately, and in the case of profits on income chargeable under Case V of Schedule D income tax shall be computed as respects the year of assessment in which the income first arises on the full amount of the income arising within that year.

It will be seen that his Lordship did not proceed to deal with the assessments for the penultimate year on the one

He picks up a half-lemon and with a mighty grasp squeezes it into a glass, looks round with the crushed skin in his hand as much as to say, “See how I empty it,” then throws the empty half-lemon on the little plate at his elbow. A small wizened yellow-faced man picks it up while waiting for his change. Giving it a tight squeeze he actually gets several more drops of juice out of it. There is a pause as the little man, having received his change, leaves the *café*. The big man glares after him. “Who is that?” he demands. “That,” says the barman, “is the local tax collector.”

hand and the second, etc., years on the other. This was not necessary to arrive at his conclusion, which was as follows:

If in each of these provisos the words “in any year of assessment” are construed as meaning “in any income tax year” the provisions seem to me to be clear and to work out naturally. Furthermore, in proviso (ii) as rewritten, you get the contrast between “any year of assessment” in the opening line and “the year of assessment” in the concluding words.

Leave to appeal to the House of Lords was given, so the matter may go further, but the above remarks throw more light on the problem than has hitherto been available.

### International Fiscal Association

At a meeting of United Kingdom members of the International Fiscal Association held in London recently it was decided to form a United Kingdom Branch of the Association.

The International Fiscal Association was founded at The Hague in 1938, for the study of taxation problems, particularly in their international aspects.

The Association, through its associate the International Bureau of Fiscal Documentation, maintains an up-to-date library of all material of interest for the study of international fiscal law in the principal countries. There is also an organisation which answers inquiries by members about the tax provisions of all important countries. The Bureau publishes a periodical, the *Bulletin for Fiscal Documentation*, of which about nine numbers are issued every year. It is supplied to members of the Association.

Those elected as members of the Committee of the Branch Association were: John G. Archibald, Solicitor of the Supreme Court (Chairman); Bernard M. Berry, A.C.A.; Roy E. Borneman, Barrister-at-Law; V. R. Idelson, K.C.; Ronald Staples. The Honorary Secretary is T. L. A. Graham, A.S.A.A., of 98, Park Street, Mayfair, London, W.1, from whom information on membership may be obtained.



# Taxation Notes

## Double Taxation—Great Britain and South Africa

THE BRITISH OVERSEAS MINING ASSOCIATION, in the Memorandum to the Chancellor of the Exchequer, to which we referred in our issue of last month (see pages 29/30 and 43), again emphasises the limited nature of the relief granted under the double taxation agreement with South Africa. The memorandum states that the largest flow of income from South Africa to Great Britain—dividends from Union public companies, particularly gold mining concerns—is not affected by the agreement at all. The relief from double taxation on these dividends still depends on Section 27, Finance Act, 1920, which limits the amount of Dominion income-tax relief to half the United Kingdom "appropriate rate."

The Association asks for negotiations to be re-opened, stating that at a meeting in January, 1947, it suggested that relief should be extended to the full amount of the United Kingdom standard rate. At that meeting it was understood that the British Government might, if negotiations were re-opened, be prepared to consider such an amendment if the Union Government would abolish the  $7\frac{1}{2}$  per cent. tax on non-resident shareholders or allow some equivalent concession. The memorandum continues:

The desire of the Revenue to secure such a *quid pro quo* calls for British support, but in fairness to the South Africans it should be understood that they regard themselves as having granted a full measure of reciprocity by taxing only income arising in the Union. If other countries were to do likewise, there would be no double taxation problem.

A typical South African dividend voucher gives the net dividend payable, accompanied by a statement such as this:

d.	
Amount of dividend declared	7.5 per share
Less South African non-resident shareholders' tax at 1s. 6d. in the £	.. .5625 "
	6.9375 "
Less United Kingdom income tax at 4s. 6d. in the £ on the gross amount of the dividend of 8.9516d.	.. 2.0141 "
Net amount	.. 4.9234 "

A holder of 240 shares would thus get a net dividend of £4 18s. 6d. The gross equivalent would be £8 19s. ( $240 \times 8.9516d.$ ).

If this case were written out in full, it would be as follows:

	£	s.	d.
Gross dividend	8	19	0
Less South African tax (see below) (8.9516d. — 7.5d. = 1.4516d. per share)	1	9	0
Dividend declared	7	10	0
Less South African non residents tax	11	3	
	6	18	9
Less United Kingdom tax at 4s. 6d. on £8 19s.	2	0	3
Net amount	4	18	6

It will be seen that the South African tax totals £2 os. 3d., i.e., 4s. 6d. in the £. This is because, there being no reciprocal relief, the dividend has to be grossed at the rate of United Kingdom relief granted, which is the maximum of half the standard rate. The true South African tax is higher, and a sur-tax payer may be entitled to further relief, or a small-income man may have had too much, matters to be adjusted in each individual case with the Inland Revenue.

## Life Assurance Relief, 1949-50

It appears that in the new system of life assurance relief in respect of "post-1916" policies, the effect of Section 29, Finance Act, 1948, is to give the relief by a deduction, along with personal allowances, of the appropriate fraction of the premiums, so reducing the amount available for reduced rate relief. This appears inseparable from sub-Section (4).

The effect is as in the following example (assuming no changes in the 1949 Act):

	1948/49	1949/50	
Income, all earned	£450	£450	
E.I.A. . . . .	£90		
Personal Allowance	180		
Child . . . . .	60		
	330	£330	
Life Assurance:			
2/5ths of £40		16	
		346	
	£120	£104	
£50 at 3/-	£7 10 0	£50 at 3/-	£7 10 0
70 at 6/-	21 0 0	54 at 6/-	16 4 0
	28 10 0		£23 14 0
L.A.R.:			
£40 at 3/6	7 0 0		
	£21 10 0		

By proviso (b) to sub-Section (4) the taxable income for the purposes of Dominion tax relief will still be £120, but not so, it seems, for any other purpose.

The difference is made up as follows:

Old relief: £40 at 3/6	£7 0 0
New relief: Since the maximum rate of tax is 6/- in the £:	
£40 at 6/- $\times$ 2/5ths	4 16 0
Difference	£2 4 0

Where the income is greater, the difference is in favour of the taxpayer, e.g.,:

	Old	New
Income, unearned	£1,000	£1,000
Allowances:		
Per. All'ce	£180	
Children	120	
	<hr/> 300	£300
Life Assurance:		
2/5ths of £120		48
		<hr/> 348
	<hr/> £700	<hr/> £652
£50 at 3/-	£7 10 0	
200 at 6/-	60 0 0	
	<hr/> 67 10 0	£67 10 0
450 at 9/-	202 10 0	£402 at 9/- 180 18 0
	<hr/> 270 0 0	<hr/> £248 8 0
L.A.R.:		
£120 at 3/6	21 0 0	
	<hr/> £249 0 0	

The difference here is between:

£120 at 3/6	£21 0 0
and £120 at 2/5ths of 9/- (3/7.2)	21 12 0
Difference	£0 12 0

## Losses Brought Forward

For 1945/46 onwards, Section 22(2), Finance (No. 2) Act, 1945, provides that where relief cannot wholly be given in respect of a loss brought forward under Section 33, Finance Act, 1926, because the Case I assessment is insufficient, any interest or dividends on investments arising in the year of assessment, being interest on dividends which would fall to be taken into account as trading receipts in computing the profits but for the fact that they have been subjected to tax under other provisions of the Income Tax Acts, are to be treated for the purposes of Section 33 as if they were profits of the trade. (In the case of life assurance or capital redemption business, losses are computed without any deduction for interest or dividends.)

It should be noted that:

- (1) Only interest or dividends are available;
- (2) They must arise from investments;
- (3) They must be trading receipts;
- (4) Rent is not included; therefore net annual value is not available, though, in equity, it should be.

Income from investments which are not part of the trading activities is therefore excluded; this will restrict the relief considerably. The income must be such that it would have to be included in the profits were it not for the deduction of tax at

source or assessment under Cases III, IV or V. Thus, a stock jobber's dividends from the stocks in which he deals are available, but an individual's personal investment income is not.

### Free of Tax Annuities under a Will

Any provision in an agreement that an annual payment is to be "free of tax" is inoperative, and the payer is entitled to deduct tax (General Rule 23). This, however, does not apply to a provision in a will, and it is common for annuities to be left "free of tax." These are interpreted as a desire on the part of the testator that the annuitant should get the stated sum without suffering any tax on it. If he receives any allowances, however, the tax saved thereon appropriate to the annuity has to be refunded to the estate, otherwise, the theory goes, he would get more than the stated sum. The rule is that in *Re Pettit* (1922, 2 Ch. 765), as modified by *C.I.R. v. Cook* (1946, A.C.1). It is thought that the estate cannot benefit from the earned income allowance, as no part of it can attach to the annuity.

#### Illustrations:

(1) Annuity of £156 per annum "free of tax" to a person over 65 years of age, with no other income:

	Income Tax
Annuity gross .. £283 12 9	£127 12 9
Allowances:	
Age .. £57	
Personal .. 110	
	167 0 0
	£116 12 9
£50 at 3/- .. £7 10 0	
£66 12 9 at 6/- .. 19 19 8	
	27 9 8
Tax recoverable	£100 3 1

This must all be refunded to the estate, so that the annuitant is left with £156, neither more nor less.

(2) Annuity as above, but War Loan interest of £70.

	Income Tax
Annuity gross .. £283 12 9	£127 12 9
War Loan interest .. 70 0 0	
	353 12 9
Allowances:	
Age .. £71	
Personal .. £180	
	251 0 0
	£102 12 9
£50 at 3/- .. £7 10 0	
£52 12 9 at 6/- .. 15 15 10	
	23 5 10
Tax recoverable	£104 6 11

This, however, is not all to be refunded to the estate. The tax on allowances is:

£251 at 9/- .. .. .	£112 19 0
£50 at 6/- .. .. .	15 0 0
£52 12 9 at 3/- .. ..	7 17 11
	£135 16 11

Equivalent to the amount recoverable as above .. ..	£104 6 11
Plus tax on War Loan interest	
£70 at 9/- .. .. .	31 10 0
	£135 16 11

Which is what the repayment would be if all the income were taxed at source.

The amount refundable to the trustees is therefore:

$$\frac{283.6375}{353.6375} \times £135 16 11 = £108 19 1$$

The trustees can, if necessary, make the annuitant put in the repayment claim (*Hickley v. Kingcombe*, 1936, Ch. 566).

Where the will operates prior to September 3, 1939, the provisions of Section 25, Finance Act, 1941, must be observed, i.e., the payments are limited to 22/29ths of the (net) annuity, and the amount of tax repayable to the estate is 22/29ths of the amount that would have been payable had the 1938/39 rates of tax and allowances operated.

Illustration: (3) Annuitant over 65, with free of tax annuity of £435 and other income (taxed at source) of £200:

	1938/39	22/29ths × £435 grossed	1948/49
Gross annuity .. .. .	£600		£600
Other income .. .. .	200		200
	800		800
Allowances .. .. .			£160
Age .. .. .	£160		180
Personal .. .. .	180		
	340		340
	£460		£460
		£50 at 3/-	£7 10 0
	£135 at 1/8	200 at 6/-	60 0 0
	325 at 5/6	210 at 9/-	94 10 0
			162 0 0
Less Tax deducted at 5/6 .. ..	100 12 6	at 9/-	360 0 0
	220 0 0		
Tax recoverable .. .. .	£119 7 6		£198 0 0
Being:		£340 at 9/-	£153 0 0
£340 at 5/6	£93 10 0	50 at 6/-	15 0 0
135 at 3/10	25 17 6	200 at 3/-	30 0 0
	£119 7 6		£198 0 0
	600		
Repayable to estate — × £119 7 6 =	800		£89 10 7.

Post-war credits are also to be apportioned (*Re Tatham* (1945), 1 Ch. 34).

### Tax Reserve Certificates

In the House of Commons on January 25 the Chancellor of the Exchequer said tax reserve certificates might be tendered in payment of United Kingdom tax which fell due at any time up to five years from the date of issue, but the allowance of interest was limited to a period not exceeding two years. It was not practicable to arrange for the acceptance of tax reserve certificates in payment of colonial income tax.

### Building Society Interest Received

We revert to the note under this title in our issue of September, 1948 (page 211). As a result of the welcome comments of readers, we have taken up the question with the Public Relations Officer of the Inland Revenue. He now informs us that the note went farther than the Inland Revenue are prepared to go. He says:

It is our view that there is no ground in law on which interest from investments in building societies under arrangement can be grossed and the concession to which your correspondents refer applies only to cases where annuities are paid out of trust income which consists wholly or partly of interest from investments in building societies under arrangement. In such cases the interest may be grossed for the purpose of determining the liability, if any, under Rule 21, General Rules, Income Tax Act, 1918.

We think that this interpretation is somewhat illogical. Under a special arrange-



# Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law

ment outside the Acts interest from a building society is not subject to deduction of tax at source. The building society pays tax on it: it is, therefore, in the nature of a tax-compounded payment. Nevertheless, if it is right (as we think it is) to set a net annuity against it, it seems to us equally right to set net interest paid against it.

## Income Tax Act, 1945

The Chancellor of the Exchequer has announced in a written Parliamentary answer that it is his intention in the 1949 Finance Bill to introduce a clause to make it quite clear that in arriving at the written-down value of plant and machinery, both the initial allowance and the full annual allowances for wear and tear must be deducted. He saw this was the intention of the Act and he did not want to leave it to legislation. Readers will no doubt recollect arguments on the matter. Reference can be made to the issues of ACCOUNTANCY for February, 1946 (page 93), March, 1946 (pages 118/9), and April, 1946 (page 138), in the last of which Counsel gave an opinion on the points that have apparently led up to the Chancellor's statement.

## Special Contribution—Northern Ireland

The Chancellor of the Exchequer stated on January 18 that the question whether under the Finance Act, 1948, the Special Contribution extended to Northern Ireland had been under consideration by the Law Officers. There were substantial arguments, including the existence of express references in the Act to Northern Ireland, which supported the view that the contribution applied in that country. There were other arguments which the Law Officers were inclined, on balance, and with hesitation, to prefer, that supported the contrary view. It was clearly undesirable that this matter should be subject to prolonged and costly litigation, and in the next Finance Bill he intended, said the Chancellor, to lay proposals before Parliament to remove any doubts and make it clear that the contribution applied throughout the United Kingdom, including Northern Ireland. Meantime, in accordance with the view hitherto held, assessments to contribution would continue to be made in Northern Ireland. It would, of course, be open to any individual in Northern Ireland to give notice of appeal against the assessment made on him. He could then either pay the contribution subject to his appeal and so save himself interest, or he could have his contribution held over in the knowledge that if his assessment was confirmed interest would be payable from January 1, 1949. The Inland Revenue were proposing to tell each individual concerned in Northern Ireland what the position was.

*E.P.T.—Optician, qualified, examining eyesight, prescribing and selling spectacles—Whether carrying on a profession—General Commissioners' decision that part of profits was from a profession—Subsequent decision that business mainly non-professional—Whether E.P.T. assessment should be upon total profits or only on non-professional—Finance (No. 2) Act, 1939, Section 12 (2), (3).*

*Neild v. C.I.R.* (C.A., November 26, 1948, T.R. 353) was noted in our issues of December, 1946, and June, 1947. The case bids fair, particularly if carried to the House of Lords, to establish a criterion which will be applicable to many cases where the vocation under review has both professional and commercial aspects. In regard to E.P.T., it is the case of the optician which has provided most scope for judicial analysis. In *Webster v. C.I.R.* ((1942) K.B.D., 2 All E.R. 517), a decision by General Commissioners against the appellant was upheld, whilst in *C.I.R. v. Carr* ((1944) 2 All E.R. 163) a decision by General Commissioners in favour of respondent was reversed by Macnaghten, J., but restored by a unanimous Court of Appeal, it being held that in the particular circumstances of the case the finding was one of fact for which there was evidence. The main difference between the two cases would seem to have been that, whilst Webster advertised, Carr did not. In the present case, appellant, like Webster, advertised on lines approved by the British Optical Association.

The appeal was against an assessment to E.P.T. of £1,402 for the chargeable accounting period ended April 5, 1943, in which the net profits of the appellant were £2,902.

The charge to E.P.T. was imposed by Section 12 of Finance (No. 2) Act, 1939, upon the excess profits of trades and businesses and by sub-Section (3):

The carrying on of a profession . . . shall not be deemed to be the carrying on of a trade or business if the profits of the profession are dependent wholly or mainly on his or her personal qualifications.

On appeal to General Commissioners against the assessment mentioned, they had held that of the total profits of £2,902 only £750 represented professional profits, and at a second hearing the appeal had been dismissed upon the contention of the Inspector that the appellant's business was a single activity and that in view of the previous finding it could not be said that the profits were dependent wholly or mainly on per-

sonal qualifications. In the King's Bench Division, Macnaghten, J., following *C.I.R. v. Maxse* ((1919) 1 K.B.D. 647, 12 T.C. 41), had held that the £750 fell to be excluded from the £2,902. The question of a revised standard was, after argument, left with the Commissioners.

When the case came before the Court of Appeal, the matter was referred to the Commissioners to determine (1) whether the profit was the subject of the assessment or any and, if so, what part was derived from the carrying on of a profession, and (2) if it was, whether the profit depended wholly or mainly on the personal qualifications of the appellant. The Commissioners' revised findings were: (1) that the £750 was derived from a profession; and (2) that the £750 was dependent wholly or mainly on personal qualifications. This was taken by the Court as a finding that appellant was carrying on a profession separate from that of his trade of supplying spectacles, etc.; but Tucker, L.J., basing his judgment on that of Warrington, L.J., in *C.I.R. v. Morse* ((1925) 5 A.T.C. 25), said that in order to bring the case within the *Maxse* principle there had to be a finding that the taxpayer was carrying on a profession separate from his trade or business and that the profits were to be severable so that when severed they might be exempted. He held, and his brethren agreed, that separation and severability were essential, and that there was nothing in either the original or the supplemental case to show that this condition was fulfilled and that the profession was separate and severable from the trade. The appeal was therefore allowed and the original assessment restored. Leave to appeal to the House of Lords was given.

In considering the decision it has to be borne in mind that the Commissioners had found that the business was mainly of a commercial nature, that is, it was not professional at all. The exemption conferred negatively by sub-Section (3) of Section 12 of the Finance (No. 2) Act, 1939, is applicable only to those professions where the profits are dependent wholly or mainly on personal qualifications. It is unfortunate that the Act does not make clear what kinds of profession were intended to be excluded. One would have thought that the profits of all were within the description. This point, however, has not yet been judicially considered.

*Income tax—Trade—Company managing factory canteens—Agreements whereby furnishings and equipment, etc., to be supplied by factory owner but to be maintained by company—Heavy losses by breakages and pilfering—Large accrued but undischarged liability under maintenance provisions of contracts—Whether sums representing estimated liability admissible as deductions in computing profits—I.T.A. 1918, Schedule D, Cases I and II, Rule 3 (d).*

*Peter Merchant, Ltd. v. Stedford (C.A., November 26, 1948, T.R. 359)* was noted in our issue of November last. The Court of Appeal has unanimously affirmed the decision of Singleton, J. The leading judgment was by Tucker, L.J. Counsel for the company, basing his case upon the evidence given by an independent chartered accountant to the effect that the reserve for accrued but unascertained liabilities was in accordance with sound commercial accounting, claimed that unless it could be shown that the deduction was expressly prohibited by Rule 3 (d) to Cases I and II of Schedule D the question was merely whether it was a proper deduction from an ordinary business standpoint. This argument was held to fail because it seemed that the accountant in question:

has interpreted this contract as imposing an obligation on the caterer to make good in the year when the losses occurred, the utensils lost at their then value,

whereas the Court held that the obligation to replace or make good the loss only arose at the termination of the contract when the cost of replacement might be very different.

The Court held with Singleton, J., that Rule 3 (d), which deals with the replacement of utensils, etc., employed in a trade did not depend upon ownership for its application and applied equally where the caterer made the replacement.

From the economic standpoint there was real if indeterminate substance in the company's claim; and as leave was given to appeal to the House of Lords the end may not be yet. The principle involved is of very wide application, and from the accounting and administrative point of view the case would seem to be of great importance.

*Income tax—Residence—Officer serving in United Kingdom, Inheritance of estate in Eire—Prior to call-up for service, householder in United Kingdom—Kept in United Kingdom by military duties—Whether resident in Eire but not in United Kingdom—Finance Act, 1926, Section 23, Schedule II, Part I, para. 1 (a), Part II, para. 4.*

*Lord Inchiquin v. C.I.R. (C.A., November 22, 1948, T.R. 343)*, was noted in our issue of November last. The Special Commissioners had held that for the years 1940-41

and 1941-42 appellant was resident in Great Britain and Northern Ireland, and Singleton, J., had upheld their decision as a finding of fact for which there was evidence. In the Court of Appeal, it was held unanimously that the question was purely one of fact, Tucker, L.J., giving the only judgment. In the course of it, he said:

I am quite unable to say that, where you find a man has at all times before the war been resident in this country, and you find him continuing to serve in this country in H.M. Forces during the war, the mere fact that he had, before the outbreak of the war, formed the intention of going to live elsewhere, makes it impossible to say, as the Special Commissioners have found, that he was resident in this country during the period of his military service.

It is interesting to speculate what the decision of the Special Commissioners would have been had the appellant instead of serving in H.M. Forces been detained in one of H.M. jails. Tucker, L.J., pointed out that on the authorities residence was a pure question of fact, and that the Courts had always studiously avoided giving any definition of the word "residence."

*Income tax—Tax-free annuity—Will executed before but testator dying after September 3, 1939—Order of Court of Appeal in similar case that annuity restricted by Section 25 of Finance Act, 1941—Similar order in present case made without argument on basis of Court of Appeal decision—Subsequent decision of House of Lords in another case overruling Court of Appeal decision—Whether parties in present case estopped from re-opening matter by principle of res judicata.*

*In re Koenigsberg (Ch. Div., July 15, 1948, T.R. 365)*, was a case of more than usual interest and was by way of being a sequel to two others. In 1942, *In re Waring* ((1942), Ch. 309 and 426) came before Farwell, J. It was a case where provision for two tax-free annuities was made by a will signed and attested before September 3, 1939, but where the testator had died after that date. Farwell, J., had held that a "provision" was not made at the date of a will but came into existence at the date of death. His decision was reversed by the Court of Appeal; but, in *Berkeley v. Berkeley* ((1946), A.C. 565), the House of Lords had overruled the Court of Appeal upon the point and approved the view taken by Farwell, J.

In 1948, the *Waring* case came before the Court again in *Re Waring* ((1948), 1 All E.R. 257), and Jenkins, J., had held that, where the Court had already applied the principle of the Court of Appeal decision before it was overruled by the House of Lords and had held in the presence of a

party that Section 25 of Finance Act, 1941, was applicable, it was impossible for that party afterwards to take advantage of the House of Lords' decision. In the *Waring* case, there were two annuitants, one resident in Belgium and the other in U.S.A. Only one was represented in the first *Waring* case, and the Court had rejected an application that the second annuitant, who could not be reached, should also be regarded as a party and be bound by the decision. The result, then, of the two *Waring* decisions was that, whilst the one annuitant will continue to have the annuity restricted by the application of Section 25, the second annuitant, although entitled under the will to an exactly similar annuity, will apparently be entitled to benefit from the House of Lords' decision in the *Berkeley* case and will suffer no restriction under Section 25.

*In re Koenigsberg*, the present case, was similar to *In re Waring* in that the testator had made his will before, and had died after, September 3, 1939, and had bequeathed three annuities potentially within Section 25 of Finance Act, 1941. In the same year as that of the Court of Appeal decision above-mentioned, Bennett, J., had in the present case made an order without argument upon the footing that that decision was right. The present action was one in which it was sought to give the annuitants the benefit of the *Berkeley v. Berkeley* decision; but Roxburgh, J., held that the same principle applied where an order of the Court had been made without challenge or argument as had been applied by Jenkins, J., in *Re Waring*. He confessed, however,

"I have struggled hard against this conclusion, feeling that I ought to do so because of the hardship which it will produce in the present case,"

but said he had to remember that the law was founded on broad principles of public policy and that the doctrine of *res judicata* by implication had been applied by the Privy Council in *Hoystead v. Commissioner of Taxation* ((1926) A.C. 155), a case of close resemblance.

It is important to note that, to quote Lord Greene, M.R., in *Patuck v. Lloyd* ((1944) 26 T.C., at p. 292):

"There is no such thing as *res judicata* in respect of decisions of Income Tax Commissioners. They may or may not follow their previous decision . . . the subject-matter is a different year's tax and a different year's assessment."

*Recent Tax Cases.*—We would remind our readers that a report appears in these columns of every tax case decided in the Courts.



## The Month in the City

### Strength of the Funds

The past month has provided plenty to interest investors but it has not produced any marked reaction on the part of many of them and business has remained at a level which is too low for the comfort of many brokers and jobbers. Apart from a rally in Kaffirs, to be dealt with later in these notes, the feature has been that the prices of fixed-interest stocks, particularly Government securities, have been moving upwards while those of most equities have sagged. The extent of the strength of fixed-interest stocks may be measured by the following comparisons of index numbers compiled by the *Financial Times* now and a month ago: yield on Old Consols, 3.08 against 3.12; gilt-edged prices, 113.97 against 113.74; general fixed-interest securities, 134.15 against 134.00. It will be seen that the irredeemable stocks have taken the lead, the longs and mediums have followed with a considerable gap, and the shorts are possibly rather lower on balance. No doubt the large current revenue surplus and the fact that over the next few years the Treasury has to tackle a number of conversions of maturing stocks, optional or obligatory, explain this movement, taking the very short-term view. But the size of the recent Supplementary Estimates is a reminder that the difficulty of maintaining a real surplus is growing rather than shrinking; this ought to suggest the evils of renewed inflation, which can scarcely be good for fixed-interest securities. Possibly the expectation is that falling prices elsewhere, especially in the United States, will enable us to reduce our own costs. But a very large part of costs is wages, which are inflexible downwards, and a cut in American prices will hinder our export drive unless we can at least equal it here.

### Decline in Equities

The equity index is down from 122.7 a month ago to 119.9. This is due almost entirely to a set-back which followed the sharp fall on Wall Street, itself promoted by a further break in commodity prices. The present pattern of price changes—rising Funds, buoyant gold-mining shares and falling industrial equities—is the one classically associated with a recession in business, but it presupposes a fall in prices rather than an inflationary condition. If the country had any doubt as to whether inflation is out of the way for good and all,

the speeches of the leading bankers to their shareholders should have made it clear that the danger is by no means passed. All of them made it quite clear that in their view the danger persists. Most of them said that the only way to lower prices is through a cut in the Government's own expenditure. One of them went so far as to suggest that a rise in the rate of interest might be both desirable and necessary. It is, therefore, not surprising that the market, while it may endorse the argument in support of rather lower prices for equities, finds it difficult to accept the rise in fixed-interest securities.

### The Union's Gold Sale

The recovery in Kaffirs—the gold-mining share index is up from 88.72 to 92.83 on the month—is due to a host of rumours and one positive development which may or may not prove to be of some importance. There has been talk of unilateral devaluation by the South African Government, which would have only a modest effect on gold-mining profits, except for a very limited period. This has been denied. The other reports were mainly of special Government action to assist the mines, and one such action has been taken. At the risk of antagonising the International Monetary Fund—and thereby of jeopardising hopes of an American financed loan to the Union—it has been decided to sell a moderate and fixed amount of gold each week at a premium of around 10 per cent. for the use of industry and the arts. The gold has been alloyed to eleven-twelfths fine. The amount involved is 12,500 ounces a week for eight weeks. It is not clear whether the sale price is per ounce of pure gold or of alloy, but the special sales are to a total value of £1 million, giving a total premium of one-tenth of that amount, which is subject to the special costs of alloying. If the sales were continued at this rate for a year it would permit a subsidy of the order of £600,000 per annum to the industry, which would not go very far towards solving either its problems or those of the Union Government—which is now chronically short of dollars and may be short of sterling if the reflux of capital to this country continues, particularly when the £80 million loan to us has been repaid. Whether this step was intended as a challenge to the Fund or not, it has been taken as such by that body and future sales are likely to be

strictly limited. Meanwhile the sterling shortage of South Africa is being relieved by the decision of more than one Union municipality to raise loans in this country.

### Dividend Limitation

Although it is now over a month since the Chancellor of the Exchequer stated that he envisaged the continuance of dividend limitation for another year, nothing definite has been heard on this subject to date. It is not easy to discuss this point without bringing in the allied questions of revised depreciation allowances and the proper treatment of rises in the money value of working capital, but it is surely evident that it cannot be desirable to put a ceiling on all dividends by adopting the purely arbitrary base of what was paid in a given year. In any case British industry ought not to be expected to continue to observe a purely arbitrary limit because of the threat that the alternative is to have it enforced by law. In reaching a decision whether or not a dividend should be increased or reduced there are many things to be taken into account; there ought at least to be consultation between the representatives of British companies and the Government to determine a more reasonable basis. It is quite unrealistic to suppose that a withdrawal of the ban would lead to a sharp and general increase in distributions. The real preoccupation of company directors today is to retain, or acquire, sufficient resources to make certain that physical capital can be improved and, in proper cases, expanded. To consent to a long-term dividend stop while allowances and taxation are on their present bases, and with no guarantee that the rise in prices will be halted, would be extremely dangerous. That, however, is not the whole story. Just as rationing tends to make everybody take up his ration, so a dividend ceiling tends to make the maximum also the minimum, in all cases where that decision can be justified.

Recently the F.B.I., apparently at the instance of the Treasury, has sought the views of industry on the continuance of limitation for another year. Of the replies so far received a large number, possibly the majority, favour continued limitation, while the bulk of the remainder favour restraint without any definite undertaking. But a considerable number in each category suggest conditions, among which the commonest is that wage rates shall not rise further. At least one company will only limit dividends if the Government will abandon market prices as the basis of valuation in case of acquisition, and a number seek the right to establish special reserves which shall be available for payment of additional dividends as soon as the limit is removed.

# Points from Published Accounts

## Economising Paper

The Associated British Maltsters report, accounts and chairman's speech all go on a piece of paper 18 inches by 10 inches, which folds thrice. On one side, reading from left to right, are the chairman's remarks, the cover with the names of the directors, etc., and the directors' report. On the other side are the consolidated profit and loss account and the parent and consolidated balance-sheets. The feature of the accounts is that while directors' emoluments are up from £53,262 to £60,428 the payment to Preference and Ordinary shareholders is merely maintained at £52,250. The appropriation to reserves is £75,000 greater at £125,000. In the past, depreciation and amortisation of properties has been provided in the accounts of the parent company (which is purely a holding concern), but this provision is now made in the books of the subsidiary companies, to which have been transferred the property redemption and depreciation reserve formerly standing in the books of the parent.

## An Extended Auditors' Report

An excellent standard for other tea and rubber companies to adopt is set by Consolidated Estates in its latest report. The expanded form of the auditors' report may be of interest. It includes the interesting information that "the accounts show the realisation of the 1947-48 crop as at September 30, 1948, but do not include any estate transactions subsequent to June 30, 1948, on account of the new crop. We have seen a certificate from the company's agents in Ceylon that the title deeds of the estates were in their possession at June 30, 1948, and have verified the investments of the company." It has not been possible to show depreciation written off fixed assets from the time of their acquisition, and the valuation made in 1938 has been taken as the starting-point, showing separately depreciation written off since that date from the various items. The surplus of depreciation reserve is shown under revenue and reserves.

Ceylon was granted Dominion status

twelve months ago and the Government has instituted exchange control over the remittance of funds from the island. This means that, in future, any fresh reserves which the company can build up will have to be retained in Ceylon and that all insurance policies will have to be taken out in Ceylon rupees.

## Re-allocation of Reserves—Method I

Owing to its considerable interests in the Far East, Harrisons & Crosfields had to make considerable provisions both before and during the war. In the latest accounts certain of them not now required are brought back to profit and loss account for re-allocation. First is the war contingency reserve, which stands at £123,750 after deducting tax of £126,250 (a rate of 10s. 6d. in the £, be it noted). Second is the item for contingencies in the rehabilitation of business in territories formerly in enemy occupation, of £75,000. Third is the provision for trading contingencies and exchange fluctuations, amounting to £100,000. Last is the sum of £78,017, formerly included in trade creditors and provisions for accrued charges. These are totalled up in the profit and loss account and appropriated as follows: to general reserve, £150,000; to reserve for trading contingencies and exchange fluctuations, £150,000; to stock depreciation reserve, £100,000. It is clearly shown that an extra £23,233 has to be appropriated from the year's profits in order to make these transfers. In the consolidated profit and loss account the balances carried forward by the parent and by the subsidiaries are shown separately, and it makes for simplicity that the regrouping of reserves discussed above is not repeated in the consolidated accounts.

## Re-allocation of Reserves—Method II

Birmingham Small Arms follows a broadly similar course to Harrisons and Crosfields, but differs in that the re-allocation of reserves is excluded from profit and loss account, notwithstanding that £238,219 is taken from the year's

profits to general reserve. It is explained that certain reserves built up against specific assets, and deducted from the assets in previous balance sheets, have been shown under revenue reserves as required under the Companies Act, 1948. To the general reserve is added general depreciation and obsolescence, stock reserve, equalisation of tax allowance, trade investments and other reserves. From the total is deducted goodwill and other write-offs, to result in a revenue reserves total of £2,500,000. This is re-allocated as to £1,000,000 to both general reserve and reserve for replacement of plant, and as to £500,000 to stock reserve. While circumstances dictate procedure, it would seem to be preferable to re-allocate reserves in the balance sheet, rather than to complicate matters by including the movements in profit and loss account.

## Integration versus Consolidation

Owing to the varied activities of the Birmingham Small Arms group some of the companies may from time to time incur losses, and it is, of course, not permissible to set such losses against profits of other companies for the purpose of income tax. To overcome this difficulty the Birmingham Small Arms Company has purchased the assets of all the wholly owned subsidiaries and subsidiary companies, and has assumed the liabilities of those companies. In the result a consolidated balance sheet is virtually unnecessary!

## Non-Recurring Credits to P. & L.

In the accounts of J. Brockhouse a minor feature is that the amounts owing to subsidiaries are deducted from the value of the shares and financial interests in those subsidiaries. The consolidated profit and loss account is in conventional form. After striking a net balance of £316,484 it is shown that £19,138 is retained by the subsidiaries. Underneath we see how the residue of £297,346 is dealt with by the parent in its own profit and loss account. The inclusion of probably non-recurring items before striking the net profit balance is open to criticism. With J. Brockhouse £38,105 profit on the sale of a subsidiary is brought to credit, but on the other hand there is a £21,000 provision for diminution in the value of investments. Apart from this, the



report is a handsome document bound in a strong cover, with comparative figures in red ink and an excellent choice of type-faces.

### Consolidation and Holding Company Accounts

It is very much to be doubted whether any other public company will outshine Brooke Bond in proving both the value of consolidated accounts and the worthlessness of holding company accounts. The parent's assets total is £6,466,367, whereas the consolidated assets total is £17,019,521, not one penny of which is attributable to goodwill. The parent's net profit is £115,810, but the consolidated net profit is £825,792! These figures compare with an issued share capital of £600,000. Principal item of interest is that the profit and loss account shows the net trading profit earned in the United Kingdom separately from that earned overseas. To them are added mortgage interest and other income, and provisions withdrawn. After conventional deductions rather a large amount of space is devoted to detailing the directors' remuneration. A net profit appropriate to the interests of Brooke Bond is struck, and the story is carried to its conclusion. It would have been an improvement if the printer had used his imagination in choosing heavier type for the sub-headings and figures.

### Overseas Capital Again

Like Turner & Newall (see ACCOUNTANCY for February, page 47) the company has raised additional capital in Canada, where preference shares were subscribed for by the public during the year. As a preliminary thereto the common shares of the subsidiary were increased by capitalising part of the profit and loss balances to the extent of £171,416.

### A Heavy Bonus Tax Payment

Brooke Bond has pleased its shareholders by proposing a capital bonus of 100 per cent. in 4 per cent. cumulative £1 preference shares, by capitalising £600,000 of general reserve. (The group has capital reserves of £2,337,564 and revenue reserves of £3,528,843.) The ordinary dividend is frozen at 12½ per cent., so that those who retain the new preference shares will see their

incomes increased to 16½ per cent. The company will, of course, suffer the bonus tax, which will cost something over £60,000, since the preference shares will stand at above their par value in view of the excellent dividend cover. Shareholders are not asked to consent to the reserve capitalisation, but to ratify an agreement between the company and a Mr. J. M. Whitehead, "on behalf of all the holders of the A and B ordinary shares." A copy of this agreement is enclosed with the report, and the form of ratification is on the reverse. There is no opportunity on the form for shareholders to oppose the agreement!

### How Profitable is Foreign Business?

There are three balance sheets this year for Electric & Musical Industries' shareholders. The first is a typical holding company balance-sheet, showing total assets of £3,836,727; the second consolidates the figures of the parent and its English subsidiaries and shows total assets of £11,188,650, of this sum £2 representing investments in and advances to the British overseas and foreign subsidiaries; and the third balance sheet is that of this last group and shows total assets of £2,575,450. The grand total of intangible assets is only £14,253. There are two profit and loss accounts, and it may be wondered why the board did not complete the picture with one giant consolidation. To have done so would have been to give perhaps a false view, since the subsidiaries in British overseas and foreign territories earned profits of £175,985, but paid only £10,747 as dividends to the parent. In his notes on the accounts the chairman emphasises that the channels of normal trade and finance are seriously hampered by currency controls, dividend limitations, customs tariffs and the effects of high taxation. "Although legislation now requires a statement of these investments to be provided, the ultimate value of these assets, and the extent to which the English business can benefit from the profits earned abroad, cannot be clearly forecast today," says the chairman. The results surprised the City and the financial Press for the net profit shown in the accounts was double the figure estimated by the directors a full month after the close of group's financial period. This estimate

was made in connection with an issue of £2 million 4 per cent. one-year Notes 1953-58 at par at end-July last, the proceeds of which were utilised in repaying the bank overdraft. This amounted to £1,313,220 at June 30 owing to the considerable expansion in stock and work. It must be said that the accounts are set out in very clear fashion with a commendable absence of befogging detail, and that the sixteen notes provide answers to all questions.

### University Training in Accounting

The London School of Economics draws attention to the university scheme whereby it is possible for an intending accountant to obtain within a period of 5½ years both a university degree (with accounting, law and economics as the main subjects) and a professional qualification. At the London School of Economics, students must:

- (a) be not less than 18 years of age;
- (b) have matriculated or been exempted (details may be obtained from the Matriculation and School Examinations Council, University of London, W.C.1).

Owing to pressure of numbers, admission is at present restricted. Candidates who have obtained a sufficiently good standard in Higher Schools, Intermediate, or the Inter-collegiate Scholarships Board Examination, will be admitted without further examination. Other students will be asked to sit a special competitive examination (consisting of one English paper and one general paper) to be held during the Easter vacation. Candidates may also be asked to an interview.

Persons desiring admission should obtain a form of application from the Registrar of the School, Houghton Street, Aldwych, W.C.2. Section I should be completed and the form returned to the school as early as possible in March.

### Development Councils

In reply to a question in the House of Commons on February 3, the President of the Board of Trade said that in addition to the three industries for which Development Councils had already been set up (cotton, furniture and jewellery), he was in consultation with six other industries about proposals for Development Councils. The industries concerned were clothing, cutlery, hosiery, wool, pottery and china clay.

# Publications

DEVELOPMENTS IN ACCOUNTING. By F. R. M. de Paula, O.B.E., F.C.A. (Sir Isaac Pitman & Sons, Ltd., London. Price £1 1s. net.)

A book by so distinguished an accountant as Mr. de Paula is an event in itself. The title of this book has been aptly chosen. *Developments in Accounting* is, in the main, a reprint of important lectures which Mr. de Paula has delivered in the course of some 26 years; lectures which do indeed trace accounting developments during that period. They make fascinating reading. Mr. de Paula has done the profession a great service not only in the original preparation of the lectures but also in their collection and publication in book form.

The imprint which Mr. de Paula has left on the development of accounting is plain for all to see. Often provocative, certainly progressive, he has been a missionary in the formulation of accounting techniques. Secrecy and obscurity in accounts are anathema to him. The presentation of balance sheets and profit and loss accounts in a form which enables them to be understood by persons who are not themselves accountants is his objective. He has seen more clearly than most people the scope for the effective use of accounting data, properly and realistically compiled, by those responsible for management. He has seen, too, the essential need for financial planning and accountancy control as part of industrial management. All this is self-evident from a re-reading of his lectures.

The lectures embrace the work of the practitioner as well as the accountant in industry. The accounting principles which should underlie the preparation of published accounts are cogently set forth. The bases upon which stock in trade should be valued are analysed in considerable detail. Mr. de Paula's own work when he was the Comptroller of the Dunlop Rubber Company, Ltd., as a pioneer in the presentation of accounts, particularly the accounts of holding companies, is succinctly described. He argues for "a closer co-operation between those members who are in public practice and others who hold responsible industrial and commercial positions." The role of finance and accountancy in the management of large business combines and the use of accounting techniques as an aid to management are objectively described. Systems of budgetary control and financial planning, and the function of standard costing, are all explained. He urges the use of accounting techniques not merely for historical purposes but as a means of looking into the future. "What is required is not so much

to know what happened six months ago, but what is likely to occur six months ahead." His own evidence before the Company Law Amendment Committee is reprinted, and makes interesting as well as entertaining reading. And the future of the accountancy profession, more particularly in its relationship to industrial accounting, is examined in a way which can only be an encouragement to those who have this matter at heart. These are the themes of only a few of the many lectures and other papers which are reprinted in this book.

In a brief summary of the conclusions to which his work has led him, Mr. de Paula suggests that "the profession should set up an organisation, upon a full-time basis, for the carrying out of research, as the older professions have done." Is this an argument for a research organisation not restricted to one of the professional bodies but embracing them all?

A reading of Mr. de Paula's papers indicates fields in which further research can be usefully conducted. What is meant when the accountancy profession speaks of "going concern values"? Should provisions for the obsolescence of physical assets be treated not as an expense in arriving at the amount of the profit but as an appropriation of profit already determined, simply because it is not possible to measure obsolescence precisely when the accounts for a particular year are prepared? Are provisions for depreciation adequate if they safeguard not the reproduction of the capital assets which are being used up in the process of production, but only the money capital which was invested in them? On what basis should stocks of raw materials be valued in a fluctuating market, and how should overhead expenses be dealt with in the valuation of processed or finished stocks, in order that profits and losses may be correctly allocated to the years in which the profits were made or the losses suffered?

The fact that many of Mr. de Paula's lectures were delivered while what are now accepted as standard principles of accounting were in the formative stage gives this book an added value, for to study the development of these principles, before they were commonly adopted, is an aid to understanding them.

In an introduction to one of Mr. de Paula's addresses, the late Lord Plender said "... Mr. de Paula's practical knowledge of the subject of which he gives us the benefit in his paper should be a stimulant to study and research." These words might well be applied to the book as

a whole. It is a book which should be read by students and members of the profession alike, and one which should also be of great interest to those who, not being accountants, nevertheless use accounting data for management purposes.

L. C. H.

COMPANY ACCOUNTS UNDER THE COMPANIES ACT, 1948. By F. Sewell Bray, F.C.A., F.S.A.A., and H. Basil Sheasby, M.B.E., F.C.A., F.S.A.A., for the Research Committee of the Society of Incorporated Accountants and Auditors. (Gee & Company (Publishers) Ltd., London. Price 3s. 6d. net.)

The first and second editions of this work, which originally appeared in *ACCOUNTANCY*, were based upon the recommendations of the Cohen Committee and the requirements of the Companies Act, 1947. The third edition now published brings the work up to date and the references made are to the Companies Act, 1948.

The booklet gives a concise and comprehensive summary of the requirements of the new Act so far as they relate to general accountancy procedure and the presentation of the company balance-sheet and profit and loss or income and expenditure account.

The method of lay-out will appeal to members of the accountancy profession, as it is designed to show the relevant provisions of the Act, which have been selected and grouped in the form of accounting statements. A specimen *pro forma* company balance-sheet and profit and loss account is shown, together with an outline of a set of group accounts. Under each heading appearing in the accounts is given a summary of the statutory provisions affecting its treatment, together with any applicable recommendations of the Council of the Institute of Chartered Accountants, and a ready form of reference is thus provided. For example, the various requirements relating to the disclosure of directors' emoluments and directors' or past directors' pensions are appropriately shown in the profit and loss account.

Statutory provisions of a more general nature upon such matters as the books of account to be kept, exempted companies, the special provisions relating to holding and subsidiary companies and reports of directors and auditors are also conveniently summarised.

The booklet was prepared for the Incorporated Accountants' Research Committee by F. Sewell Bray, F.C.A., F.S.A.A., and H. Basil Sheasby, M.B.E., F.C.A., F.S.A.A., and is yet another important professional contribution to the proper preparation and use of accounts from the pens of the authors of *Design of Accounts*, first published in 1944.

The authors are to be congratulated upon their original approach to this subject,



giving to the reader a quick reference to those points in the preparation and audit of accounts upon which practitioner and student alike will often need guidance.

H. J. L.

**THE MEASUREMENT OF PRODUCTION MOVEMENTS.** By C. F. Carter, W. B. Reddaway and R. Stone. (Published by Cambridge University Press, Cambridge. Price 12s. 6d. net.)

"For a great many industries there is not, even now, an embarrassing wealth of output statistics; it is rather a question of deciding which of the scraps of information that throw some light on the industry's activity would provide the least unsatisfactory indicator of its output." This extract from the monograph of the Department of Applied Economics at Cambridge on its index of industrial production, first published in February last year, reveals the basic problem which at present confronts the research worker in this field.

As is already widely known, the index is designed to measure the monthly movements in output of a large sector of the economy as a whole "over a period of perhaps five years." It is based on a collection of "indicators" of output covering over 200 industrial activities, ranging from steel to corset manufacture. The discussion on the task of finding suitable indicators is revealing indeed. In the result, some 60 per cent. of the weighted totals are based on data relating to actual physical output, the most suitable measure from the statistician's point of view, although it is freely admitted that the data varied widely in their degrees of reliability. For the balance, statistics of output in money terms provided 12 per cent. of the weighted totals, material consumption by the industry some 15 per cent., and 12 per cent., derived from employment returns in the industries concerned, relies on the accuracy and relevance of this rather crude class of indicators. At this stage the authors are impelled to write, "we are frankly sceptical as to whether a monthly index of production can ever be sufficiently accurate to justify any but the broadest and most tentative conclusions about changes in productivity." It is a pity that certain public figures do not exercise the same caution as the authors in the use of this index!

The data is adjusted for weekly comparisons, and further treatment is designed to eliminate the effects of public and annual holidays. It is interesting to note that the loss of production from the annual holiday is regarded as only 20 per cent. greater than that caused by the Easter break. The authors contend that since there is a certain amount of spreading of holidays, a greater adjustment is not necessary. In view of the experience of holiday resorts during the past

year, it would seem, to this reviewer at least, that the authors are carrying their assumption a little too far. It must be admitted, however, that if there is any error arising here, it is relatively insignificant in relation to the many arising from a multitude of assumptions made for other purposes. No attempt is made to introduce seasonal adjustments,—"a waste of time" according to the authors—since the pre-war data on seasonal fluctuations is either non-existent for so wide a field as this index covers, or almost certainly irrelevant to current conditions.

The task of "weighting," like the selection of suitable indicators, was based on everything from factual evidence to mere male intuition. The choice of 1946 as a base year has evoked some criticism of the index, but the authors defend their choice by demonstrating that recent years have brought a host of new data not available for the 1930's; that the post-war years cannot be realistically compared with pre-war, and in any case the frequently adopted base of 1938 has no more to recommend it from a statistical viewpoint than has 1946.

The discussion of the problems encountered in preparing the index, of which some only have been indicated above, is contained in the first section of the book, comprising about two-thirds of the whole. The second part, really a glorified statistical appendix, portrays in columnar form details relating to sources and weights of the constituent items, and the final part consists of a chapter on past efforts to measure productivity in this country together with a short bibliography.

It will be a pity if this work reaches only a small specialist audience. The clarity of exposition and simplicity of style attained are all too seldom seen in such texts. The authors deserve every credit for their candour and intellectual honesty in revealing the limitations of the index; perhaps now some of us will learn how to use it.

A. R. I.

**STANDARDISED AUDIT WORKING PAPERS.** By Frederick Staples, C.P.A. (Counting House Publishing Co., 735 N. Water Street, Milwaukee 2 Wisconsin, U.S.A. Price \$4.50.)

The author says in his preface that "this book has been written to promote discussion among practising accountants." There is no doubt that members of the profession here who read the book will be provided with ample material for animated controversy.

The book is written from an American viewpoint by an eminent member of the American Institute of Accountants, and in accordance with American accounting customs and principles. Bearing this in mind, a study of the book is bound to be valuable. It will help a British accountant

to obtain insight into American methods and systems. It will explain how and why—though by inference only—the voluminous and detailed reports on most American audits are compiled. Whether an auditor's report need contain such a wealth of information and statistical data has long been a point of difference in this country. Yet the reports submitted by some members of our own professional bodies are remarkably economical in their information.

It is not suggested that practising accountants here should be encouraged to go to transatlantic extremes. Indeed, a perusal of some chapters of this book leaves the impression that in order to maintain a set of standard working papers efficiently and on an up-to-date basis, a separate and specially trained staff is necessary. No doubt this is actually part of the responsibility of the senior member of the staff supervising the audit, but a considerable amount of time must be spent in the collation and checking of the detailed working papers.

A point, however, which may be counted in favour of the recommendations of this work is that the use of a form of standard working paper or programme would help to keep the question of pure auditing in front of the clerk or executive completing the work. In an endeavour to cope with the increasing mass of new legislation and income-tax complications which confront him it is extremely easy for the British accountant or auditor to lose sight of the real purpose of the audit.

The use in the book of expressions like "scratch paper" and "split journal" is at first inclined to confuse and to induce some apprehension, but upon investigation these resolve themselves into common-or-garden objects such as scrap paper and a journal with separate columns for balance sheet and profit and loss entries.

The actual specimen working papers, of which there is an abundance, are detailed and most informative; in fact, it is regrettable that the textual and explanatory parts of the book are not equally profuse and illuminating. Out of approximately 270 pages, including the introduction, only 59 are used to explain the compilation and purposes of the standard set of papers.

A. G. S.

**GUIDE TO COMPANY BALANCE SHEETS AND PROFIT AND LOSS ACCOUNTS.** By Frank H. Jones. Third Edition. (W. Heffer & Sons, Cambridge. Price 15s. net.)

The author has followed the excellent plan of taking each of the balance sheet groups in turn, and discussing the relevant accounting and income tax matters. True, such an arrangement leads to a repetition of what may be found in other types of textbooks. But it is convenient, and it shows up a number of sad gaps in the contents of the

other textbooks. For instance, astonishingly few writers give an adequate description of the rights, etc., of different classes of shares; Mr. Jones does this fully, and makes his remarks more illuminating by adding some useful extracts from typical prospectuses.

The great difficulty in writing this sort of book is to know where to draw the line; each chapter might be expanded almost indefinitely. A reviewer would be ungracious if he blamed Mr. Jones for leaving out matters that might reasonably have been deemed insignificant at the time of writing. Thus one looks in vain for any light on the method of showing sums set aside to meet non-current taxes—but who a few months ago could have foreseen the storm that has suddenly sprung up because of the Institute's somewhat unhappy pronouncements on this point? However, a reviewer may reasonably object when the subjects omitted are almost the kernel of the whole matter, as when Mr. Jones, in quoting the Institute's recommendations on stocks, does not say that "market value" is defined as a figure "calculated by reference to the price at which it is estimated that the stock-in-trade can be realised."

There is another danger—that complicated and contentious subjects will be presented in a tabloid form which oversimplifies them and leaves out the necessary warnings. Take the author's handling of "goodwill." On page 74 he says that by "super-profits" is "inferred the return forthcoming on capital invested in excess of the prevailing rate obtainable on gilt-edged investments." Are we quite sure about this? Is not "goodwill" comparable to the premium at which high-dividend shares stand? If so, surely it arises only when earnings exceed, not gilt-edged rate, but the higher rate regarded by the market as adequate for the risks of the particular undertaking? Some hint of such controversies would make the book sounder and the subject more interesting.

Despite these mild protests, the general impression created by the book is far from unfavourable. It will lighten the article clerk's studies and give the teacher of accounting a handy addition to his array of tools.

W. T. B.

**ACCOUNTING CONTROL BY USE OF STANDARD COSTS.** By Gerald H. Gregory, A.I.C.A., A.C.I.S. Second edition. (*The Law Book Co. of Australasia Pty., Ltd., Sydney; Gee & Co. (Publishers), Ltd., London.* Price £1 10s. net.)

This is one of the most comprehensive books on the subject of standard costing which has yet been published. It should be in the possession of every serious student of cost accounting.

One of the principal features of the book is the practical nature of the numerous examples and specimen rulings and diagrams. This should recommend the work to practising accountants and cost accountants, as well as to industrial executives who may be contemplating the introduction of standard costing.

Mr. Gregory's outline of the duties and responsibilities and of the desirable personal attributes of the successful cost accountant is excellent. In particular, his contention that the cost accountant should be an integral element in the manufacturing organisation, and should have a detailed knowledge of the types of machinery used and of their capacity and output, is well said. There can be no doubt that far too many cost accountants endeavour to perform their functions entirely from an office desk, failing to maintain that close liaison with the works which is essential if the costing routine is to be kept up to date, practical and realistic.

Whilst the author's comment in the preface, that standard costing is a "recent accounting innovation," is open to question, he certainly introduces a number of quite novel methods of preparing and presenting his data. In this country, standard costing has been widely used for at least twenty years, and it was practised much earlier in the U.S.A. A further minor criticism of an otherwise excellent work lies in Mr. Gregory's failure to use the same terms consistently throughout his book. A very noticeable example of this is his use of the words "oncost" and "overheads." This inconsistent use of technical expressions may prove confusing to young students and to readers lacking practical costing experience.

Mr. Gregory sets out to show how standard product costs are built up, using a series of cost cards to facilitate the process. Each card shows the direct material, direct labour and overhead charges in respect of each operation or process involved in the manufacture of each product. The pricing of stock and inventories of work-in-progress is thus greatly simplified. The author then proceeds to show how the stock control procedure is carried out and demonstrates how cost variances are shown up, by recording actual costs per job or batch, thus enabling departmental performances to be assessed. It is, of course, most essential that reasons for variances from standard cost should be clearly deduced.

The book suggests that the six major financial controls with which the management should be familiar are:

1. Value of raw material in store.
2. Cost of production.
3. Manufacturing gains and losses.
4. Value of finished stock.
5. Cost of sales.
6. Gross recovery (or profit).

To provide the data required if the management is to exercise these controls, Mr. Gregory establishes his standard costing routine.

Every aspect of cost accounting procedure is adequately covered, the chapter on "Sectionalising for Financial Control" being especially interesting. It discusses in detail the preliminary investigations into a specimen textile factory and indicates the steps to be taken in dividing up the organisation into suitable cost or control centres. The book then outlines the general set-up of the cost ledger accounts, showing how periodic departmental profit and loss accounts are prepared.

There are also excellent chapters dealing with production control and with the allocation of overhead.

S. P.

## BOOKS RECEIVED

**THE PROFITS TAX SIMPLIFIED.** By Arthur Rez, B.Com., F.R.Econ.S., F.L.A.A. (*Barkley Book Co., Ltd., London.* Price 2s. 6d. net.)

**THE PROFITS TAX—A CONCISE GUIDE.** By A. G. McBain and Robert P. Burnet. (*Sweet & Maxwell, Ltd., London.* Price 12s. 6d. net.)

**PRINCIPLES OF COMPANY LAW.** By Alfred F. Topham, LL.M. Eleventh Edition. (*Butterworth & Co. (Publishers), Ltd.* Price 15s. 6d. net.)

**GUIDE TO THE NEW COMPANY LAW.** By A. T. Purse, LL.B., A.C.I.S., Barrister-at-Law. (*Sir Isaac Pitman & Sons, Ltd., London.* Price 5s. net.)

**JORDANS NEW COMPANY LAW, 1948.** By L. J. Morris Smith, Barrister-at-Law. (*Jordan & Sons, Ltd., London.* Price 7s. 6d. net.)

**INDEX TO THE COMPANIES ACT, 1948.** By Oliver Smith, Barrister-at-Law. (*Jordan & Sons, Ltd., London.* Price 5s. net.)

**COMPARATIVE TABLES OF THE SECTIONS OF THE COMPANIES ACTS, 1929, 1947 AND 1948.** By J. G. Hassell, F.C.I.S. (*Jordan & Sons, Ltd., London.* Price 3s. 6d. net.)

**INDEX COMPANION TO THE COMPANIES ACT, 1948.** By Peter M. B. Rowland, B.A., LL.B. (*Sweet & Maxwell, Ltd., London.* Price 10s. net.)

**RANKING, SPICER AND PEGLER'S MERCANTILE LAW.** Incorporating Partnership Law and The Law of Arbitration and Awards. Eighth edition edited by W. W. Bigg, F.C.A., F.S.A.A., and C. N. Beattie, Barrister-at-Law. (*H.F.L. (Publishers), Ltd., London.* Price 25s. net.)

**ELEMENTS OF COMPANY LAW.** By Harry Farrar. Fifth Edition. (*Gregg Publishing Co., Ltd., London.* Price 10s. 6d. net.)

**AN INTRODUCTION TO INDEX NUMBERS.** By A. J. H. Morrell, M.A. (*H.F.L. (Publishers), Ltd., London.* Price 4s. 6d. net.)



## Letters to the Editor

### United Nations Educational Scientific and Cultural Organisation

SIR,—Unesco has read with some concern the article in your December issue headed "International Accounting Scandal," in which you have drawn attention to the state of accounts of the Organisation as disclosed by the auditors' report for the period ended December 31, 1946.

The inference to be drawn from this article is that such a state of affairs still exists in Unesco, and that a purge is required in the accounts section. I should appreciate an opportunity to state in your journal the facts as they are at present as shown in no less than three auditors' reports issued by Messrs. Price, Waterhouse & Co. subsequent to that from which you have given extracts.

In the first place, it should be understood that immediate action was taken in 1947 to rectify the state of affairs which existed in 1946. The system of accounts was entirely changed, a strong system of internal check was imposed, and members of the staff, including the Comptroller and Chief Accountant, were replaced.

The Executive Board called upon the auditors to furnish a report in September, 1947, to show what steps had been taken to put the accounts in order, and I quote a few extracts from that report:

"... the present state of the accounts and records appears to be generally satisfactory. . . ."

"The control of commitments and expenditures has now been well established. . . ."

"... important improvements in the controls and accounts have been made since our previous report, and further improvements are being introduced."

Furthermore, the auditors were able to state in a memorandum on Accounting Procedures which accompanied their report on their examination for the financial period ended December 31, 1947: "We are pleased to report that further substantial improvements were instituted during the second half of 1947. . . ."

A further report from the auditors on the examination made by them for the period ended June 30, 1948, contains no criticism, and it can, therefore, be stated that Messrs. Price, Waterhouse & Co. have satisfied themselves as to the adequacy and accuracy of the records, the integrity and ability of the staff, and the propriety of the expenditures.

It would only be fair to this organisation, in the light of the article published in ACCOUNTANCY in its December issue, that

these facts should be brought to the attention of the public in the same way as the critical auditors' report for the financial period ending December 31, 1946, which covered the period of the Preparatory Commission.

The period of unsatisfactory financial management lasted only a few months when the Organisation was in its infancy. Since that time, over a period of nearly two years, the auditors have reported favourably on no less than three occasions.

Unesco is entitled to say that it has put its house in order in this field to the complete satisfaction of both its auditors, Messrs. Price, Waterhouse & Co., and the representatives of 44 Member States at the General Conference recently held in Beirut.

For your information, I have pleasure in enclosing copies of the auditors' reports dated September 18, 1947, June 7, 1948, and September 29, 1948.

I am, Sir,

Yours very truly,

R. HARPER-SMITH,

V.R.D., A.C.A.,

Deputy Comptroller, UNESCO.

Paris.

### P.A.Y.E. and Preferential Rights

DEAR SIR,—There appears to be nothing in the Income Tax Acts or the Companies Acts which would give the character of trust money to P.A.Y.E. tax in a liquidation. It is true that Section 1 (1) of the Income Tax (Employments) Act, 1943, can be interpreted to mean that the amount deducted from employees is income tax in the employer's hands from the time of the deduction. If this were meant to create a trust then it might be expected that the Act would declare the tax a "pre-preferential" debt. The Act does not do so.

Regulation 29 of S.R. & O. No. 251 of 1944, provides for recovery of P.A.Y.E. tax not paid over as if it had in fact been charged on the employer under Schedule E. If there were any point in this it might be argued that it gave the tax the quality of an "assessed tax assessed on the company," and made it preferential under Section 319 of the Companies Act, 1948. The latter point, however, is negated by the change in the preferential period fixed by Paragraph 31 of S.R. & O. No. 251 of 1944.

In principle the position appears no different from the familiar one where tax deducted from interest has not been accounted for to the Revenue under Schedule D, or where tax deducted from rent has not been paid over under Schedule A.

In my view the answer to your correspondent's questions in your February issue must be:

(1) The segregation of P.A.Y.E. tax in a special bank account does not create a trust. The bank could if it wished set off the P.A.Y.E. tax account against any overdraft or loan on another account. The liquidator must bring the money in the P.A.Y.E. bank account into the general liquidation account to pay costs, etc., in proper order.

The rights of the Revenue are merely those of a preferential creditor under Paragraph 31 of S.R. & O. No. 251 of 1944.

(2) If there is no trust there cannot be any breach of it.

Yours faithfully,

D. MAHONY.

London, E.C.2.

### Our New Guise

SIR,—As a member of the fellow body I take a liberty in accepting your invitation to comment on the new design of the journal; but for twenty years I have taken a close interest in layout and type faces. Little noticed on the whole, they contribute greatly to the smoothness and consequent pleasure of our mental activity in and out of the day's work.

I find the alterations are very appropriate to the times, suit the reader's convenience, and most happily express the Society's authority and outlook.

I do not understand your diffidence over using the thinner paper for general make-up. Speaking in ignorance that I would appreciate your enlightening, I am sorry that an even thinner paper, sufficiently opaque for ease of reading and submissive to annotation, was not adopted.

(1) To preserve the balances of nature is much more important than the consideration of short-term economic policy, let alone the flattery of unregenerate taste. I think first of all of Great Britain when I say that famine in however distant a country is a much more serious business than a dollar shortage at our own door.

(2) ACCOUNTANCY is neither an "ephemeral" for early pulping nor a piece for collectors of sumptuous editions. It is first for the hand, and then becomes a migrant between the reference shelf and the office desk. In office and library, for economy of space and effort, spare me one volume where two stood before.

(3) Spare the portage of production and distribution; spare the post and spare the freight; spare especially the world air-lift for more and cheaper cargoes. You join a company of good example.

Briefly, we have *us*, not least a richer

leisure, for all substance and effort superfluous to precisely defined purposes.

I sincerely welcome the indication you give of more text to come; the selection is in your hands. Welcome every wider and further communication of good intent within the profession and between it and the other readers you have all over the world; public, academic and business men.

Yours faithfully,

A. L. R. WALTON, F.C.A.

London, E.C.2.

### A War Audit

In spite of an era of full employment, some three thousand men who held commissions in the last war are registered as unemployed at The Officers' Association, which acts as the Officers' Benevolent Department of the British Legion. Nearly 10 per cent. of this total are men with experience in the field of accountancy. Many, called from civilian life for war service, are out of employment through the changes resulting from the war—the disappearance of firms through enemy action and through alterations in the focus of trade and industry; the changed conditions in the East and Far East; and from many other causes.

A proportion of these ex-officers are in the fifties and possess the standard academic qualifications. Others in this age group are former warrant officers with good experience in the maintenance of stock-ledgers, checking, and simple clerical accounting. By far the larger number, however, are between 30 and 40 and possess book-keeping and accounting experience, and have held responsibility. Of these, the Pay and Accounting Departments of the Services took full advantage, and thereby gave them further useful experience.

A further group consists of the young men whose careers have been checked at the outset by service in the Forces. They have expressed an interest in this type of work, but few are able to afford the cost of articles. They are prepared and anxious to undergo training, particularly where prospects of steady promotion exist together with the opportunity for obtaining accredited qualifications.

The Officers' Association would be most grateful for offers of any vacancies. Every ex-officer is carefully interviewed on registration at the Association's Employment Bureau, which endeavours to forward only the names of candidates who will be really suited to the particular appointment, thereby saving the employer's time. There is, of course, no charge of any sort, and there is a guaranteed measure of integrity which, for such employment, must be of value.

Enquiries should be sent to The Officers' Association, Denison House, Vauxhall Bridge Road, S.W.1, Victoria 0758.

### CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

THE THIRTY-FIFTH ANNUAL DINNER OF THE Chartered Accountant Students' Society of London was held in the Connaught Rooms, London, on January 12. Sir Harold Howitt, G.B.E., D.S.O., M.C., F.C.A., President of the Society, presided.

The guests included the Rt. Hon. Viscount Jowitt, O.B.E., Lord High Chancellor of England; Marshal of the R.A.F., The Lord Tedder, G.C.B.; the Rt. Hon. the Lord Mayor of London, Sir George Aylwen; Sir Frederick Alban, C.B.E., J.P., F.S.A.A., President, Society of Incorporated Accountants; Sir Eric Bamford, K.B.E., C.B., C.M.G., Chairman, Board of Inland Revenue; Mr. R. Wynne Bankes, C.B.E., B.A., Secretary, Institute of Chartered Accountants; Sir Harold Barton, F.C.A.; Mr. B. H. Binder, F.C.A., President, Institute of Chartered Accountants; Sir Edward Bridges, G.C.B., G.C.V.O., M.C., Permanent Secretary to the Treasury; Mr. H. L. Urling Clark, Chairman, Stock Exchange Council; Mr. A. A. Garrett, M.B.E., M.A., Secretary, Society of Incorporated Accountants; Col. Sir Alan Gillett, T.D., D.L., President, The Law Society; Sir Russell Kettle, F.C.A., Vice-President, Institute of Chartered Accountants; Mr. A. S. MacIver, M.C., B.A., Deputy-Secretary, Institute of Chartered Accountants; Sir Arthur Street, G.C.B., K.B.E., C.M.G., C.I.E., M.C., Deputy-Chairman, National Coal Board; and Sir Frank Newton Tribe, Comptroller and Auditor-General.

The toast of "The Students' Society" was proposed by Marshal of the Royal Air Force, The Lord Tedder, G.C.B., who said, in the course of an amusing speech, that he thought and hoped that the next generation would be as much better than the last generation as the last lot was better than his lot. It was advisable to get advice on this subject and he was sure that the Lord Chancellor would not mind his quoting another Lord Chancellor, Sir Francis Bacon:

The errors of young men are the ruin of business, but the errors of aged men amount but to this, that more might have been done or sooner.

Lord Tedder gave another piece of advice from Sir Francis Bacon on the subject of study:

To spend too much time in studies is sloth.

Responding, Mr. J. Victor F. Crowther, Chairman of the Committee, said that this was a particularly happy occasion as it was the first on which Sir Harold Howitt had presided over their annual dinner, and the first annual dinner to be held after a lapse of ten years. Describing the marked growth of the Society and the expansion of its activities, Mr. Crowther reminded his

hearers that its membership was about 2,000, this figure being somewhere between four or five times that of 1938/39.

Proposing the toast of "The Visitors," Sir Harold Howitt said it might be thought by some members that having regard to the quality of the guests they were setting for themselves too high a standard for other years. He suggested that the occasion was a special one—the first dinner since before the war.

Before the war the students' dinner was a great occasion. Although they could not say that they had finished with wars, so far as the last war was concerned they had at least got it right out of their bones. In that respect, and as a compliment to their profession and to a sense of recognition of the difficulties students were having with their studies, the guests were there to pay honour to the profession and to wish them Godspeed in their work and future careers.

Responding to the toast, Lord Jowitt, O.B.E., the Lord Chancellor, confessed that for a very long time he had thought that something should be done about the word "accountant," which meant such a multiplicity of things. Years ago he suggested trying to get all the various accountants' societies together to this end. He succeeded in getting them all together—from England, Scotland, Wales and Northern Ireland. He had also got them all to a meeting, and he still hoped that some day the Bill which they propounded would be introduced into Parliament. Continuing, he said that judges had been nationalised for a great many years, and still they were comparatively free. He hoped that the accounting profession in carrying out its duties would remain absolutely free to do what they believed to be right, and to maintain those standards which would get the country through difficult times.

The Lord Mayor of London, Sir George Aylwen, who also responded, said that the basis of all business must be the integrity of accountants and auditors.

The toast of "The President of the Society" was proposed by Mr. B. H. Binder, President of the Institute of Chartered Accountants in England and Wales, and Sir Harold Howitt briefly responded.

### Post-War Credits

Up to the end of 1948, post-war credits on income tax had been repaid to a total of £128 million. There were then £672 million of post-war credits outstanding.

### London Students' Society

Members of the London Students' Society are reminded that a supper-dance will be held at Bush House on Friday, March 18, from 7.30 p.m. to 11.30 p.m. Tickets, price 10s. each (to include supper), may be obtained upon application from the Secretary of the Students' Society.



## Legal Notes

*Finance Regulations—British subject borrowing foreign currency abroad—Whether he can be sued for repayment in England.*

In *Boissevain v. Weil* (1949, 1 All E.R. 146), the Court of Appeal reversed the decision of Croom-Johnson, J., in one of the few reported cases turning on the Defence (Finance) Regulations, 1939. Anyone who has endeavoured to apply these Regulations to a borrowing of foreign currency abroad knows how difficult they are to interpret. In 1944 the defendant, a woman of British nationality then living in enemy-occupied Monaco, being in need, borrowed from a Dutchman in Monaco a sum of French francs on the terms that she would repay the sterling equivalent, namely, £2,000. She gave him a cheque for that amount, drawn by her on an English bank. Two further transactions of the same amount took place between them. It is understood that in regard to a large number of loans to British subjects abroad in difficulty during the war, the Treasury has given permission to the borrower to repay, but in the present case the defendant had no account at the bank, and when the Dutchman sued her for £6,000 in the English courts she contended that the action was not maintainable. Croom-Johnson, J., gave judgment for the Dutch plaintiff, but the Court of Appeal dismissed his action.

Regulation 2 of the Defence (Finance) Regulations, 1939, as amended on August 5, 1940, provided that "except with permission granted by or on behalf of the Treasury, no person other than an authorised dealer shall buy or borrow any foreign currency or any gold from . . . any person not being an authorised dealer." Section 3 of the Emergency (Defence) Act, 1939, provided in effect that unless the contrary intention appeared, any prohibitions imposed by any Defence Regulations should apply to a British subject wherever he might be. The Court of Appeal thought that there was no indication of a contrary intention in Regulation 2. It followed that the defendant committed an offence against the Regulation in borrowing French francs in Monaco.

But the lender was not a British subject, and the loan took place abroad. Was he to be bound by the British Finance Regulations? The problem was to be answered, in the view of the Court of Appeal, by applying the principles of private international law, and deciding which law was

the law of the contract. As the contract to repay was (in the Court's view) to be performed in England (notwithstanding that the contract was made, and the loan took place in Monaco) the Court held that the law of the contract was English law, and therefore, as the borrowing of foreign currency was prohibited by that law, the action failed. This reasoning is not convincing. The question what is the law of a particular contract is to be answered in accordance with the presumed intentions of the parties. What is the intention of the parties in regard to a loan by a Dutchman in Monaco to an Englishwoman in Monaco? Surely the law of Monaco. *Prima facie* the law of a contract is the law of the place where the contract was made—in this case Monaco. Sometimes it is the law of the place where the contract is to be performed. But the contract was to be performed by a loan in Monaco and a repayment of sterling, possibly in England, possibly in Monaco. Suppose that the parties had expressly agreed that the law of Monaco should be the law of the contract: would not the law of Monaco have been the law of the contract, and would the lender in that case have been entitled to succeed in his action?

It is submitted that the better answer to the question in the case of *Boissevain v. Weil* was that the contract was valid, and the plaintiff was entitled to judgment upon it in an English court, but the judgment might be useless to him because the amount of the judgment could not be paid without the permission of the Treasury.

One other interesting question was discussed in the case. Suppose an Englishman, domiciled in the United States, borrows dollars in New York from an American on the terms of repaying dollars in New York? Does he commit an offence? The Court of Appeal refused to answer the question, but seemed inclined to think he did not. It is respectfully submitted that there is no sufficient reason for so holding.

*Company Law—Article of association providing for automatic transfer of shares on death to widow of shareholder—Invalidity.*

Harmian, J., in *Re Greene* (deceased); *Greene v. Greene and others* (1949, 1 All E.R. 167) had to deal with an interesting problem relating to a private company. Article 7 of its articles of association pro-

vided that no person should be recognised by the company as holding any share on any trust. Article 8 was of a familiar form, and gave existing members prior rights to purchase shares which another member desired to dispose of. But an alteration had been made in this article, providing that it should not apply in the case of a transfer or transmission of the shares of any male director, arising upon his death, if he left a widow; and that in such a case the shares of the deceased director should, notwithstanding any provision made by him in his lifetime, be deemed to have passed upon his death to his wife, who should be the only person recognised by the company as having any title to the shares, and should be registered as the holder in place of the deceased director. A director died intestate leaving a widow and three children, which four persons were entitled to his estate. It was resolved at a board meeting that the widow should be registered as the holder of her husband's shares, and she was registered accordingly.

The Court held that Article 8, as so amended, was contrary to Section 63 of the Companies Act, 1929 (now Section 75 of the Companies Act, 1948) which provides that "notwithstanding anything in the articles of a company, it shall not be lawful for the company to register a transfer of shares in or debentures of the company unless a proper instrument of transfer has been delivered to the company; provided that nothing in this section shall prejudice any power of the company to register as shareholder or debenture holder any person to whom the right to any shares in or debentures of the company has been transmitted by operation of law." Accordingly the learned Judge held that the registration of the widow was wrong, and he ordered the register to be rectified by registering the shares in the joint names of the personal representatives of the deceased.

*Executors of an English estate—Taking out grant in U.S.A. in respect of American assets—Receiving "agency commission" under American law—Whether accountable to English estate.*

In *re Northcote* (1949, W.N. 69) concerned the executors of a person who died domiciled in England and left assets both in Great Britain and in the United States of America. Owing to the Revenue's requirement of security for the English duty, they obtained a grant in the State of New York in respect of the American assets, and as legal personal representatives of the testator in that State collected the American assets, and for so doing received by the law of the State "agency commission." They paid over to themselves, as English executors, the American assets less the "agency com-

mission," and the question arose whether they were accountable to the estate for that commission. The principle urged was the familiar principle which was recently described by the same Judge in *Re Gee* (1948, 1 Ch. 284) as "the principle that a trustee, in the absence of a special contract, can neither make a profit out of his trust, nor be paid for his time and trouble." In his judgment Harman, J., pointed out that this was a sum that was never part of the English assets—which alone were being administered in this country—but came to the executors from an outside source while they were administering the trust. Secondly, it was not received by them through an exercise of their volition. They were obliged to take out the American grant, and everything flowed from that. Thirdly, the same remuneration would have been payable to anyone else, for example to anyone to whom they might have granted a power of attorney. Was there, then, an equity against these trustees to disgorge this commission on the ground that their interest conflicted with their duty? He held not. The American executors were never responsible for this sum, and the English executors were therefore also not responsible.

## Obituary

ALPHYON PERRY RICHARDSON

Members of the profession in Great Britain, who before the war were the guests of the American Institute of Accountants in the United States of America, will learn with regret of the death of Mr. Alphyon Perry Richardson, which took place on January 8, 1949. When he retired in December, 1936, he had been Secretary of the American Institute and editor of the *Journal of Accountancy* for over twenty-five years.

Mr. Richardson paid visits to Great Britain from time to time, and he was present at the International Congress on Accounting held in London in 1933.

During Mr. Richardson's secretaryship the American Institute's organisation was greatly expanded and many useful developments were initiated.

His journalistic ability was reflected in that successful periodical *The Journal of Accountancy* (published by the American Institute of Accountants); in addition he was author of an interesting compendium, *The Ethics of the Profession*, and of several books on travel.

Subsequent to his retirement, Mr. Richardson lived for a number of years in California.

# THE SOCIETY OF Incorporated Accountants

## EXAMINATIONS

ARRANGEMENTS HAVE BEEN MADE TO OPEN an additional centre in Birmingham.

The Preliminary, Intermediate and Final Examinations will be held on May 17, 18 and 19, 1949, at London, Manchester, Leeds, Cardiff, Birmingham, Glasgow, Dublin and Belfast.

Applications on the appropriate forms, accompanied by all relevant supporting documents and the fee, must reach the Secretary at Incorporated Accountants' Hall not later than Monday, March 21, 1949.

The Society does not undertake to arrange hotel accommodation. Candidates must make their own arrangements in this respect.

## EXAMINATION FEES

After reviewing the cost of conducting the Society's Examinations, the Council decided that the following revised scale of fees should come into operation as from December 1, 1948:

Preliminary Examination ..	£3	3	0
Intermediate Examination ..	£4	4	0
Final Examination ..	£5	5	0
Preliminary Examination Exemption ..	£2	2	0

## FINAL EXAMINATION

Results of Examinations in South Africa  
October, 1948

## Candidates Passed

COWLEY, Morris (with P. M. George & Co.), Durban; DUNNE, Walter Edward (with George Mackeurtan, Son & Croser), Durban; DUNNINGHAM, Gordon Watson (formerly with Stewart, Steyn & Co.), Johannesburg; FAIRBAIRN, Walter John Gerson, Durban (Practising Accountant); GIBBINGS, Thomas Ashley (with Warren & Hofmeyr), Pretoria; KILLIAN, Benjamin Christian (with Wolpert & Abrahams), Durban; MCBRIDE, Thomas Alexander (with Douglas Low & Co.), Johannesburg; MACGREGOR, Ian Hutton (with Howard Pim & Hardy), Johannesburg; PITMAN, John Thomas (with Price, Waterhouse, Peat & Co.), Johannesburg; ROSHOLT, Aanon Michael (with Goldby, Panchaud & Webber), Johannesburg; SILKE, Aubrey Samuel (Practising Accountant), Cape Town; SMITH, Alan Bosworth, Johannesburg; SPENCE, Peter Royce (with Douglas Low & Co.), Johannesburg; TWYGCROSS, Henry Cecil (with Deloette, Plender, Griffiths, Annan & Co.), Johannesburg; VON SEIDEL,

Cronwright (with Hemphill, Anderson & Co.), Johannesburg.

(Fifteen candidates failed to satisfy the examiners)

## IRISH INDUSTRY AND ACCOUNTANCY

THE ANNUAL DINNER OF THE SOCIETY OF Incorporated Accountants in Ireland took place in Dublin on February 5. The President, Mr. Robert Bell, F.S.A.A., Belfast, presided. The guests included: Mr. D. Morrissey, T.D., Minister for Industry and Commerce, Eire; Mr. Cecil Lavery, S.C., Attorney-General, Eire; Sir Frederick Alban, C.B.E., J.P., F.S.A.A., President, Society of Incorporated Accountants; Mr. R. P. Rice, Chairman, Revenue Commissioners; Mr. W. H. Fitzsimons, F.C.A., President, Institute of Chartered Accountants in Ireland; Mr. P. R. Boyd, President, Incorporated Law Society of Ireland; Mr. S. V. Kirkpatrick, President, Dublin Chamber of Commerce; Mr. A. A. Garrett, Secretary, Society of Incorporated Accountants; Dr. A. A. McCarthy, LL.D., Registrar, National University of Ireland; Mr. N. Pritchard, Office of the United Kingdom Representative in Eire; Mr. John Walsh, Third Secretary, American Legation; Mr. John Maher, Comptroller and Auditor-General, Eire; Mr. R. J. P. Mortished, Chairman of the Labour Court, Eire; and many other representatives of professional bodies and of commerce.

The President, Mr. Robert Bell, proposing the toast "Prosperity to Ireland," said that, individually, accountants could make a distinct contribution to the health of industry. In welcoming the Minister for Industry and Commerce, the President said that the Society was vitally interested in the efforts of his Department and of the Governments of Eire and Northern Ireland towards the promotion of Ireland's prosperity.

The Minister for Industry and Commerce (Mr. D. Morrissey, T.D.) responded. He said that the Society and its members played a very important part, and an honourable part, in the economic life of the country. A movement had been initiated for greater and more efficient production, and here the Society could be of tremendous assistance. It was the aim of the Government to double their agricultural exports within the next four years. One of the greatest boons was the scheme of rural electrification, which was going on at all possible speed, and was hampered only by the difficulty of obtaining raw



materials. The Government was also desirous of increasing industrial production, and was convinced that this could best be done by private enterprise.

Exports in 1948 exceeded those of 1947 by £8 million, and the adverse trade balance had been reduced by over £2½ million. In the last two years, however, imports exceeded the total exports by about £180 million. It was impossible to contemplate without apprehension the continuance of an adverse balance of such dimensions. If the standard of living was to be raised, or even maintained, it was an urgent necessity that exports should be substantially increased. The Government also looked forward to an appreciable reduction in imports.

They had a measure of peace and unity in the country never known before in the lifetime of any of them, and relations with Great Britain had never been better.

Mr. C. Lavery, Attorney-General, proposed the toast of "The Society of Incorporated Accountants and Auditors." He congratulated the Society on the high status it held. The Society's members were spread all over the world, wherever there was organised society. They had great responsibilities, and their duties were discharged with great skill and reliability. The affairs of enormous concerns with numerous ramifications and handling hundreds of millions of pounds were brought down in the end to a few tables of figures on a few sheets of paper. What was true of big business was true of small business also. The accountant could tell anybody what he could safely make in business without prejudicing himself in certain quarters (laughter). The accountant called for the trust of the business community, of the common people, and of the State. That that trust was given was the highest tribute that could be paid to their profession. The certificate of a properly qualified accountant was accepted without question and acted upon.

Sir Frederick Alban, C.B.E., J.P., F.S.A.A., President of the Society of Incorporated Accountants, in responding, congratulated Mr. Fitzsimons on the attainment of its sixtieth birthday by the Institute of Chartered Accountants in Ireland. Their own Society, which was sixty-four years old, had now reached a membership of slightly over 8,000. It was very gratifying to him to receive constantly messages of greetings from the Branches and District Societies of Incorporated Accountants that were flourishing in all corners of the globe. They were naturally anxious to give to their members the highest possible standard of general education and specialised training. As far back as 1907, Mr. Justice Warrington, in referring to their Society, said that its members were

recognised as upholding a certain definite status indicative of reliability and integrity. It was the constant endeavour of the parent Society and of the branches to live up to that high standard. During his visit to the United States and Canada, with Mr. Nelson, a member of the Council of the Society, and Mr. Garrett, he had been touched by the reception accorded to them by Society members who had carved out careers for themselves in those countries.

It should be realised by Governments, continued Sir Frederick, that inflationary trends which were merely due to alterations in the prices level tended in the long run to destroy capital. In the United Kingdom and in Eire this problem now occupied a very prominent part in many of the speeches at company meetings. It was a very serious position when a country began to live on its capital, and it was necessary constantly to draw attention to the position.

The toast of "Our Guests" was proposed by Mr. Mervyn Bell, F.S.A.A., Vice-President, Society of Incorporated Accountants in Ireland, and responded to by Mr. P. R. Boyd and Mr. S. V. Kirkpatrick. The President of the Branch, in a closing speech, said that it would be a great pleasure to hand on his badge of office to Mr. Mervyn Bell, and paid tribute to the great work done for the Society in Ireland by Mr. A. H. Walkey, F.S.A.A., and Mr. A. J. Walkey, F.S.A.A.

### THE EAST WIND

AT A LUNCHEON OF THE INCORPORATED Accountants' London and District Society held on February 8, Mr. W. Hadwick, Chief General Manager of the National Provincial Bank, was the guest speaker. Mr. T. H. Nicholson, Chairman of the District Society, presided.

Mr. Hadwick said that he was not going to talk on the science of meteorology. The "east wind" of the title of his talk was the financial east wind. In some respects that east wind was not unlike the atmospheric one. They well know how searching that was and how it found any weakness in the physical structure. If it did not last too long and the body was physically fit and well clad it could also be invigorating, and it could act as a tonic. So could the financial east wind, providing the trading community had in good times sufficiently fortified itself.

What was this financial east wind? It was that condition in finance, industry and trade when buyers become scarce and when values receded. What had they, as professional people, and himself as a banker, to do with this? A great deal. He had not in mind the work of receiverships and liquidations, but rather preventive and remedial measures. If a business had an auditor who was also guide, philosopher and

friend, it had taken the first precaution. It must be remembered that the seeds of trouble were usually sown long before the crop began to make its appearance. Business became daily more and more complicated, and those immersed in its daily conduct might well be excused if there were times when they found it difficult to see the wood for the trees. The skilled accountant familiar with the business, but not living daily so close to it, might well be able to see it at times in better perspective.

### BALANCE AND LIQUIDITY

Viscount Montgomery's belief in controlling armies was in the maintenance of a balanced position. Time and time again when they read his books or his sayings they came back to that belief. That situation should be the goal to which they should help those businesses in which they were interested. To his mind, the first essential was liquidity, a satisfactory excess of liquid assets over current liabilities. One must, of course, avoid over-simplification. A property-owning company, if it was to justify its existence, could hardly be looked at from the same angle as a manufacturing concern. Desirable liquidity should be matched with capacity to earn profits, which meant that risks had to be taken. But risk was justified only when the measure of it could be estimated. In that direction accountants could help their principals.

Many businesses had worked their way successfully through long periods of adverse trading because, having maintained a satisfactory margin of liquid resources over current liabilities, they could always discharge their obligations as they arose, and were enabled to carry on until better times returned. A glance through the records of some of the textile companies in the north of England would make that fact clearly evident. Those businesses suffered severe trading losses at times, but either because of the strength of their own resources or because they were able to cajole a bank manager, they managed to survive. It meant that their credit was good enough to justify the assistance they received.

Generally speaking, the item of liquid assets which was most difficult for a lender—he was speaking particularly from the point of view of a bank manager—was stock-in-trade and work in progress. Of course, accountants did not value those items; they had to rely upon those who had long experience of them. A net liquid position which might, on paper, appear adequate, might, in fact, be much less so if stocks formed too large a portion of the assets. There might be too considerable an amount of obsolete or slow-moving items. The relationship of stocks and work in progress to sales might be too high. If stocks were formed of component parts of the assembly

of a finished article, their proportions might be wrong.

#### FORWARD COMMITMENTS

It was unusual for the balance sheet of a company to give any information about its forward commitments—the forward purchases and sales of the commodity or stocks in which the company dealt. This factor was one to which he thought accountants and bankers should give close attention.

#### TAXATION

There were, continued Mr. Hadwick, other aspects of the scrutiny of both sides of a balance sheet which to the initiated could disclose clear signals of the necessity for a better balanced and healthier position. The question of provision for taxation liabilities jumped to the mind. It was ever with his listeners, he believed.

Mr. O. I. Thomas expressed thanks to Mr. Hadwick on behalf of members of the District Society and the guests.

#### COUNCIL MEETING

JANUARY 26, 1949

Present: Sir Frederick Alban, President (in the Chair); Mr. A. Stuart Allen; Mr. C. Percy Barrowcliff; Mr. R. M. Branson; Mr. E. Cassleton Elliott; Mr. M. J. Faulks; Mr. A. B. Griffiths; Mr. A. Hannah; Mr. L. C. Hawkins; Sir Thomas Keens; Mr. D. R. Matheson; Mr. A. E. Middleton; Mr. Bertram Nelson; Mr. James Paterson; Mr. T. Harold Platts; Mr. R. E. Starkie; Mr. Joseph Stephenson; Mr. Richard A. Witty; Mr. A. A. Garrett (Secretary), and the Deputy and Assistant Secretaries.

#### ELECTION OF VICE-PRESIDENT

Mr. A. Stuart Allen, Fellow, London, was unanimously elected Vice-President of the Society. Mr. Allen thanked the Council for his election.

#### INSOLVENCY MATTERS

The Council adopted a resolution, the text of which is given on page 55 of this issue.

#### RESIGNATIONS

The Council accepted with regret the following resignations of membership as from January 1, 1949, except where otherwise indicated:

BAXTER, Alexander James (Fellow) New York.

BRAZIER, Arthur Gilbert (Fellow) Okehampton.

CLARKE, James Arthur (Associate) London.

FISK, William Ernest Gyde (Associate) Washington, Co. Durham (as from January 1, 1948).

FOXLEE, Arthur Brazier (Associate) Chelmsford.

GRAUL, Isidore (Associate) London.

HANSON, George (Associate) Dewsbury.

JOHNS, Samuel (Associate) London.  
LAWRENCE, Sydney (Associate) Walsall.  
LEAH, Horace Baxter (Fellow) Stockport.

MACGREGOR, Walter (Fellow) Edinburgh (as from July 1, 1948).

QUINE, Thomas Douglas (Associate) Nottingham.

SMITH, William Jagger Cooper (Associate) Leeds.

#### DEATHS

The Secretary reported the death of each of the following members and intimated that an expression of the sympathy of the Council had been communicated to the relatives:

ASHDOWN, Cecil Spanton (Fellow) Bermuda.

BELL, William Richard (Associate) Leeds.

BOTTOMLEY, Thomas Ireland (Associate) Keighley.

BRODIE, John Paterson (Fellow) Stoke-on-Trent.

BUTTERWORTH, George Richard (Fellow) Hastings.

CREIGHTON, Herbert (Associate) London.  
DESAI, Manilal Vaghjibhai, B.A. (Associate) Bombay.

FITZGERALD, Joseph Martin (Fellow) Dublin.

GOULDING, Edward Sainsbury, O.B.E., T.D. (Fellow) Liverpool.

HAYNES, Alfred Ernest (Associate) London.

KELLY, Harold (Associate) London.

MUDD, James Leonard (Fellow) Birmingham.

RANDALL, Frederick Charles (Associate) Warwick.

RIDLEY, George (Fellow) Newcastle-on-Tyne.

SIRCAR, Sachindra Nath, B.A. (Associate) London.

STEEL, Charles Stanley (Fellow) London.

URRY, William Oliver John (Associate) Worcester.

VICKERY, Herbert Douglas (Fellow) Wellington, N.Z.

WRIGHT, Walter William (Associate) Bournemouth.

#### SPECIAL COUNCIL MEETING

##### REPORT FROM

##### THE DISCIPLINARY COMMITTEE

A special meeting of the Council was held on January 26, 1949, in accordance with Articles 34 and 35. The President occupied the Chair.

A report was received from the Disciplinary Committee that Harold Pendleton, Associate, had been convicted, at the Southport Magistrates' Court, of larceny contrary to Section 2 of the Larceny Act, 1916.

The Council, having considered the report of the Disciplinary Committee, resolved that Harold Pendleton, Associate, Southport (now of Beckenham, Kent) be and is hereby excluded from the Society in accordance with Articles 34 and 35.

#### PERSONAL NOTES

Messrs. Woolley & Waldron, Incorporated Accountants, Southampton, have admitted to partnership Mr. R. Bentley, A.S.A.A., A.C.A., and Mr. A. S. Watson, A.S.A.A., A.C.A., who for some time past have been senior members of their staff. The name of the firm is unchanged.

Messrs. E. Harlow & Co., Incorporated Accountants, 23, King Street, Nottingham, have changed their firm name to Singleton, Carter & Co.

Mr. M. P. Majumdar, B.COM., Incorporated Accountant, has commenced public practice at P/7, Mission Row Extension, Calcutta, I.

Messrs. Inglis, Davey & Co., Chartered Accountants (Aust.), Brisbane, advise that Mr. Alexander Inglis, F.S.A.A., has retired as partner but will still be available to the firm as consultant. Mr. W. T. Rhoades, A.C.A. (Aust.), has been admitted to partnership.

Messrs. C. N. Walter, Lester & Co., Incorporated Accountants, London, announce that Mr. Frederick A. Lipscombe, A.S.A.A., has been admitted to partnership.

Messrs. Watling & Hirst, Chichester, announce the retirement of Mr. Cecil Hirst, A.S.A.A., and the admission to partnership of Mr. George A. Sluggett, A.S.A.A.

Mr. F. J. Goulding has been taken into partnership in Messrs. Geo. H. Chapman & Co., Folkestone. Mr. G. H. Chapman has retired from the firm.

Messrs. Buzzacott, Lillywhite & Co., Incorporated Accountants, London, have admitted into partnership Mr. R. C. Munday, A.C.A., A.S.A.A.

#### REMOVAL

Messrs. Towers & Naismith, Incorporated Accountants, announce that they have removed to 5, John Dalton Street, Manchester 2.

#### OBITUARY

HERBERT ODDY. We learn with regret of the recent death of Mr. Herbert Oddy, F.S.A.A. He was the senior partner of Messrs. Oddy & Fox, Incorporated Accountants, Bradford, and had been a member of the Society of Incorporated Accountants since 1903. He commenced public practice about twenty years ago. The firm of Messrs. Oddy & Fox is being continued by the surviving partner, Mr. Frank Fox, A.C.A., A.S.A.A.



